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## Local economic policy: principal stages of development, basic types, tools and strategies

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**Abstract.** Local economic policy has a high priority because of a particular significance of a municipal level of governance – the nearest one to population - in market economy regulation. This paper provides a definition of a local economic policy; its purposes and tasks are set. The stages of world experience in the development of local economic policy are outlined. Main types, tools and strategies of local economic policy are described. The direction of contemporary reform of municipal government in Russia is defined.

### Introduction

Any state needs control mechanisms in order to its economy to function sufficiently. The authorities of all countries carry out an economic policy which is understood as any regulating impact on the economy of a country by authorities controlled politically [1].

An economic policy is pursued on all levels of territorial hierarchy: central, regional and local ones.

Two basic tendencies in state control of economy have still predominated in the world:

- liberalization and de-regulation, i.e. state refusal of many functions in economy regulation;

- decentralization, i.e. delegation of powers to lower levels according to the principle of subsidiary responsibility.

The recent reforms of public power in Russia, however, having reduced the role of state, in general, resulted in concentration of a great part of authorities in economy regulation on federal and sub-federal levels rather than on the level of a local authority.

### Principles of local economic policy

Local economic policy is a form of local economy regulation by local authorities. A true local economic policy is impossible to be carried out without full local government.

Zhikharevich B.S. in [2] submits the following definition: "local economic policy is considered as a set of measures of regulating influence on the economy, taken in the interests of local population by the local authorities within a definite concept, aimed at expansion of economic potential of a territory and improvement of efficiency of its use, increase of competitiveness of local enterprises through development of best general manufacturing conditions, and advantageous business climate".

As determining features of local economic policy he offers:

- a subject of local economic policy – independent authorities of local government developing and carrying out local economic policy;

- orientation of local economic policy towards the interests of local community according to the interests of the country on the whole;

- mechanisms of involvement a wide range of concerned business and political structures working in the city into development and implementation of local economic policy.

The final aim of a local economic policy consists in improvement of living standards of population through effective employment and development of reliable taxable base of a local budget, enabling the implementation of necessary social programs.

Principal tasks of local economic policy are:

- development of advantageous business climate and its components;
- development of advantageous business infrastructure for production.

Municipal governments as economic agents competing with each other offer the business environment.

### **Development stages of local economic policy**

Taking into consideration the overseas experience three main stages were found by the World Bank in the development of economic theory in the field of local economic policy [3].

At the first stage (from 1960s to the early 1980s) the main purposes and priorities of the local economic policy were as follows:

- attracting investments into manufacturing facilities, primarily, direct external investments;
- investing in hard infrastructure of municipalities.

The following tools were applied at this stage:

- extending grants (big non-repayable funds);
- supplying with subsidized loans principally aimed at attracting investments into manufacturing facilities;
- providing business with "tax holidays";
- subsidizing investments in hard infrastructure;
- implementation of high-valued projects aimed at cutting down production costs in order to attract new companies.

At the second stage (from 1980s to the mid 1990s) the following purposes and priorities can be outlined in the local economic policy:

- supporting and developing already existing enterprises;
- inflow of external investments directed to particular sectors or regions .

The following important tools were developed to achieve these purposes:

- direct forms of support of enterprises;
- creation of business incubators and techno parks;
- providing business with technical and methodical assistance;
- implementation of programs to support entrepreneurs;
- investments in hard and soft infrastructure.

The third stage of local economic policy development (since the second half of the 1990s up to now) is characterized by following purposes and priorities:

- development of a business climate supporting the economy on the whole;
- investments in development of soft infrastructure;
- development of public-private partnership;
- support of private investments inflow to produce public goods;
- attracting external investments purpose-based only to improve competitive positions.

The following measures are developed to implement the listed priorities:

- development of complete (concerted) strategy to contribute to establishment of local companies;
- providing a competitive investment climate;
- support and encouragement of collaboration and net-working cooperation;
- promotion of development of business-clusters;
- attracting external investments in development of business-clusters;
- encouragement of employees for further training and qualification improvement;
- support of living standards improvement in municipalities.

It is to be emphasized, that to master the tools listed above Russian self-government had a two-times shorter period (over 20 years).

### Types and tools of local economic policy

At the present time the following directions of the local economic policy can be found:

- support of local business, especially small one and entrepreneurs;
- attracting companies and external investments;
- support of domestic investments, assistance to expanding enterprises in order to find new assets;
- promoting innovations, advanced technologies, improvement of quality standards;
- city branding.

Being combined differently the listed above directions various types of local economic policy (according to the object of impact) are set [1]:

- a capital-centered policy is aimed at external capital inflow, promotion of domestic investments, collaboration with external and domestic investors;
- a manpower and human resources-centered policy – improvement of personnel training, creating possibilities for education and advancement of living conditions;
- innovations-centered policy – promotion of applying innovations in economy, distribution of information on scientific achievements;
- technology-centered policy – development and distribution of technologies, establishment of techno-parks, information nets, and centers of technology transfer;
- communication-centered policy – improvement of traffic, energy and information nets and communication lines;
- an economic environment-centered economic policy – development of advantageous business climate, reliable infrastructure, a diversity of services for businessmen, successful combination of different branches;
- a policy focused on a particular type of companies – support of particular types of companies or definite phases of a company development;
- a policy centered on local territories within the town borders.

In the world practice the following groups of tools are applied [4]:

- infrastructure development;
- managing municipal estate properties;
- planning land tenure and building licensing;
- financial aid providing;
- tax and rate regulating;
- submitting information, consulting and advertising;
- improving general conditions for business;
- placing municipal orders.

They are divided into two groups of tools:

- 1) measures on development of infrastructure and general conditions of production and daily living;
- 2) a set of motivation means (financial and nonfinancial) for encouragement of activity of economic agents.

Different tools of local economic policy are applied in order to implement one of the four economic strategies, described in details in [1,5]:

- 1) development of new forms of business and entrepreneurship – activity focusing on creation of environment supporting local businessman when “incubating” new forms of business, i.e. encouraging the population for business activity and skills;
- 2) attracting business – activity which is based on the aim to contribute to relocating economic activity from outside (neighboring and remote regions, including foreign countries);
- 3) support and expansion of ongoing business – activity aimed at keeping and (or) expansion of existing economic activity within the municipalities (primarily that of ongoing economic agents);
- 4) sectorial development – combination of all strategies mentioned above, their general goal consists in development of a particular sector of economy (for instance, tourism, science and education, high-tech branches of industry and services, public health service).

### The direction of development of local economic policy in Russia

From 1995 to 2000 among the tools of local economic policy in Russia there were: tax benefits and tax holidays, privileges in renting of municipal property, administrative regulations, tariff policy. It was provided by means of budget and tax legislation which was relatively liberal for municipalities and also by municipal property (land and estate property), inherited from the Soviet system. Besides financial resources municipal governments had a wide range of administrative resources influencing on the business activity. At the same time, an industrialized approach dominated among business structures obtaining municipal preferences. Therefore, there was a possibility for abusive practice. Having changed a range of local responsibilities and raw material resources a reform of local government restricted gradually possibilities and authority of municipal governments on interference into economy. For instance, the Federal Law issued on 06.10.2003. № 131-FZ "On general principles of local government organization in Russian Federation", having brought local authorities closer to population, cut down their opportunities to use municipal property as a tool of local economic policy.

In the first years of contemporary reform of local government (in 2005) the International Centre of social and economic investigations "Leontyevsky Centre" carried out a survey of Russian municipalities to find out the set of tools they use for classifying and analyzing practice of development and implementation of local economic policy. The results of the survey were as follows [1].

The following most applied tools of a local economic policy were listed:

- supply of tax benefits;
- development of opportunities for business and authorities to communicate;
- consulting business agents;
- privileges in leasing premises;
- supply of municipal guaranties;
- development of information services for businessmen.

The following tools were relatively popular:

- reducing of administrative burdens, streamlining activities of controlling and inspecting agencies;
- support in project development;
- benefits in land leasing;
- assistance in establishment of business contacts in Russian Federation;
- carrying out an urban development zoning, land surveying, finding zones, suitable for economic activity.

The following tools were less mentioned:

- implementation of infrastructure projects providing opportunities for prospective line development;
- training specialists for business;
- submitting subsidized loans;
- building infrastructure objects;
- encouragement of management, marketing and cooperation of small business agents;
- assistance in establishment of business contacts abroad;
- development of the most required sectors of engineering infrastructure;
- microcredit submitting;
- development of trade shows of town objects, publishing catalogues of investment projects;
- encouragement of self-organizing business-structures, development of interurban cooperation urban business-ethics.

At this stage the least used tools were:

- active antitrust policy;
- implementation of complex programs of city marketing, development and promotion of investment image;
- building or reconstruction of premises to be sold or to be leased for setup of production;
- establishment of business incubators and techno parks for enterprises;

- preparation and providing with facilities of the grounds to be passed to building owners;
- cooperative promotion of goods and services within one brand, assistance in marketing of products;
- establishment of city development agencies and those for investment attracting.

It is interesting to mention that for most small towns all possible tools of business development were considered as the strategic ones on their territory aimed both at assistance to business and attracting of external investments and establishment of new companies. This “diffusion of forces” can reflect the efforts of small town authorities to compensate for a downward trend of the level of real budgetary independence.

### Conclusion

In contemporary Russian history centrifugal trends in development of local government were replaced by centripetal ones. The degree of centralization of authorities making attempts to find a balance between levels of governance increased in the last decade and caused the cut in the financial (budgetary) self-sufficiency and consequently the opportunities of municipalities to conduct own economic policy of their own. It can be suggested that at present only some tools of local economic policy from the theoretical ones listed above can be applied properly in Russia. As a consequence, local authorities lose motivation to pursue economic policy aimed at development of the territories.

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