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**Regional Transformation
in Russia**

by
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Introduction

After several years of debate and inconclusive results, the problems of regional policy have now come to the fore of the political agenda in the Russian Federation. The 1993 Constitution left the issue of state structure far from resolved. There has been no effective institution for implementing regional policy. The central leadership has declared a clear commitment to federalism. In the current situation, however, ill-conceived attempts in the area of regional development might result in a backtrack to unitarism and a compromise of democratic values in an effort to strengthen central state control.

Throughout the last half of the nineteenth century, Russia's economy developed more slowly than did that of the major European nations to its west. Russia's population was substantially larger than those of the more developed Western countries, but the vast majority of the people lived in rural communities and engaged in relatively primitive agriculture. Industry, in general, had greater state involvement than in Western Europe, but in selected sectors it was developing with private initiative, some of it foreign. Between 1850 and 1900, Russia's population doubled, but it remained chiefly rural well into the twentieth century. Industrial growth was significant, although unsteady, and in absolute terms it was not extensive. Russia's industrial regions included Moscow, the central regions of European Russia, St. Petersburg, the Baltic cities, Russian Poland, some areas along the lower Don and Dnepr rivers, and the southern Ural Mountains.

The reform policies in the last Tsarist period were designed to modernize the country, secure the Russian Far East, and give Russia a commanding position with which to exploit the resources of China's northern territories, Korea, and Siberia. In spite of a severe economic depression at the end of the century, Russia's coal, iron, steel, and oil production tripled between 1890 and 1900. Railroad mileage almost doubled, giving Russia the most track of any nation other than the United States. Yet Russian grain production and exports failed to rise significantly, and imports grew faster than exports. The state budget also more than doubled, absorbing some of the country's economic growth.

Regional disparities during the Soviet epoch, after the Revolution of 1917 were diminishing until the mid-century point and started to rise only after that. Soviet policy towards the regions is broken down into several periods during which central direction and a degree of decentralisation have alternated.

Russia inherited from the Soviet Union an economic structure that was geographically highly unbalanced. Capital accumulation and industrial location were a result of a concerned government policy to locate key industry in a small number of regions. But even after the collapse of the Empire, the gap between more prosperous regions, including Moscow and St. Petersburg, and less developed ones, has not been reduced. Actually, the gap has widened during the last decade of transi-

tion. The paper describes regional disparities and their influencing factors, analyses regional socio-economic imbalances, losers and winners of the transition. Finally, it gives a summary of regional development policy documents and main targets of the regional policy.

1 Macro-political survey

In the late 1980s a slow democratic transformation began in Russia, the largest member republic of the Soviet Union, and the country acquired independence in 1991. At first, despite widespread discontent among the population, market reforms needed to be introduced by means of shock therapy and by the forced privatisation of state enterprises. This strategy evoked strong opposition within the government which was seeking transformation and also within the (conservative majority) legislature. By 1993 the forces opposing reform had been defeated, but it had also become clear that the price of this shock therapy was too high for the still-fragile Russian democracy. Consequently, the radical reform programme was temporarily put on hold and the transition towards a market economy continued, although often clumsily and ambiguously. Although by 1997 the Russian economy had halted the decline caused by the transformation, financial and fiscal discipline had been deeply undermined by corruption and by a soaring crime-wave. In the following year a serious financial crisis, which left its mark on the global economy, shook the country due to the unfavourable effects of a number of internal and external factors. In Russia, however, the 1998 economic crisis was followed by continuous economic growth, and from the turn of the millennium the reform policy was given new impetus. As a result, there has recently been a major leap forward in the expansion of privatisation, in the restructuring of the financial, energy and rail-transportation sectors, in the reorganisation of agriculture and in the fields of employment policy and tax and pension reform. However, the situation of the Russian economy strongly depends on the volatile global market price of energy resources, which, together with various crisis symptoms, makes the future of the country and of market reform rather uncertain (*Aganbegyan, 2004*).

Russia is a country undergoing transformation on a huge scale and where experiments involving vague, imprecise policy decisions were made over a long period – all in the name of the change of regime. By the end of the '90s social processes had still not established the basis of a successful reform policy, although the intellectual capacity had been available from the very first. The transformation, therefore, started to develop only after the 1998 crisis, when, in addition to the decisive counter-crisis and to reform measures, the favourable changes in the global market for energy (mainly natural oil and gas) made a substantial contribution to the boom (*Table 1*).

Table 1

Main macroeconomic indicators in Russia, 1991–2004

Indicator	1991	2000	2004
Natural population growth, percent	–1.5	–6.6	–5.9
Estimated life expectancy, years	67.8	65.3	65.3
Unemployment rate, percent	5.2	9.8	7.1
GDP growth rate, percent	n/a	10.0	8.1 ²⁰⁰⁷
Students in higher education, per 10,000 population	190.0	324.0	495.0
Inflation rate, percent	1,608.8	20.2	10.9

Source: Federal'naia sluzhba gosudarstvennoi statistiki.

The introduction of the market economy in Russia (as in other ex-socialist countries) also caused a rapid increase of prices, which peaked with the hyperinflation of 1992. The rate of currency depreciation slowed year by year from 1992 to 1997, and after the 1998 crisis a lower rate of inflation (albeit still galloping) developed. At the same time, between 1992 and 2002, the unemployment rate rose by 40 percent (until 1998 by 150b), which was caused by the dismissal of a large number of the employees of state enterprises. The transformation-related recession in the Russian economy reached its nadir when the volume of real GDP declined to 60 percent of the 1990 level. This increased by only 1 percent in 1997 and dropped back to 58 percent in 1998 due to the financial crisis. In 1999 the re-start of economic growth produced a favourable change in the misery, unpopularity and imbalance indices. In 2002 the GDP volume compared to the 1990 level increased to 72 percent, although, in early 2001, global economic stagnation, the September 11th terrorist attacks and the ongoing recession slowed down Russian economic growth, calling into question the plan for the GDP of 2000 to double by 2010.

Despite the fact that Russia liberalised its economy considerably during the 1990s, the government was unable to adopt stringent budgetary restrictions for a long time. This led to large-scale state borrowing and, finally, to the sudden financial crisis of 1998. The competition for resources between old and new enterprises due to weak financial discipline made state support for the private sector more difficult, although private enterprises had been promoted at the beginning of the transformation process. The concentration of state power within a narrow oligarchic elite favoured the old enterprises, and those new arrivals with good political connections. Moreover, later in the transformation the emergence of new market players was hampered by the selective incentive schemes (Barnes, 1998; Shleifer and Treisman, 2000).

The Russian Federation has a large-capacity, technological-scientific infrastructure (research potential, technically skilled labour, technology universities),

and it is currently a world leader in numerous fields. There are, however, very few practical links between the scientific and technical output of research institutes and the demands of Russian or foreigner enterprises. Moreover, a huge proportion of resources is still concentrated in the formerly closed – or, currently, still isolated – research cities. As a heritage of the post-World War II US–Soviet superpower rivalry, a significant part of R&D is still used for military purposes even in today’s Russia. As a result, between 1994 and 2000, national defence spending from the state budget for R&D increased from 30.8 percent to 38.3 percent and, in respect of space research, from 9.2 percent to 12.5 percent.

The dissolution of the Soviet Union resulted in the disintegration of what was, in many respects, an autarch and so-called unified national economic complex, and the severance of long-standing production and technology links between the former federal republics. Changed economic conditions made it necessary for the re-emerged Russian Federation to join the international division of labour more strongly, and this required alignment with global market prices and the implementation of sectoral reforms.

In the sectoral structure of the Russian economy, in addition to the retreat of agriculture, industry and construction, the expansion of the tertiary sector is evident. In the case of production and employment this tendency is more readily analysable thematically on the basis of the data shown in *Tables 2–3*.

Between 1990 and 1999 the total percentage of agriculture, industry and construction of GDP (at current prices) decreased from 61.4 percent to 39.6 percent. Conversely, that of services increased from 38.6 percent to 60.4 percent. In GDP production terms, agriculture, industry and construction all fell by 40 percent, 80 percent and 60 percent respectively. The relative importance of manufacturing within industry declined by 60 percent, that is, it declined from 24.2 percent to 13.8 percent. At the same time the high total percentage accounted for by mining and by electricity-, gas- and water-supply also rose by 10 percent (from 12.8 percent to 14.7 percent) – which may be linked to increased prices. Within services the importance of commerce and accommodation services increased by 270 percent, financial services and property transactions doubled, public administration rose by 60 percent and “other services” including education and health-care grew by 20 percent, but the importance of transport and telecommunications declined slightly.

As a result of privatisation, between 1991 and 2001 the private sector’s share of GDP rose by 5 percent (to 70 percent) in Russia itself, whilst in the whole of the Commonwealth of Independent States (CIS) it rose by an average of 10 percent (to 50 percent). In the Russian Federation several industrial companies have changed ownership during the last ten years. Due to strong vertical integration, geographical fragmentation (as well as to the limited number of potential buyers and sellers of companies approaching privatisation on selected markets) Russian industry is not vulnerable to market competition. Furthermore, legal barriers set up by the state protect the old companies facing competition from newcomers, both domestic and

foreign firms. If obstacles which make it more difficult for new companies to enter markets are to be avoided, then antitrust measures need to be adopted. This also applies to a competition policy based on generally accepted principles if discretionary powers are to be curtailed, transparency increased and accountability improved.

Table 2

Sectoral structure of the GDP in Russia, 1990–2005, current prices, percent

Sector	1990	1995	1999
Agriculture	15.5	6.7	6.0
Industry	37.0	28.1	28.5
Processing industry	24.2	17.3	13.8
Construction	8.9	7.9	5.1
Commerce & accommodation services	5.2	18.2	19.1
Transport & telecommunications	9.3	11.1	8.9
Financial services & property transactions	3.0	6.7	5.9
Public administration	3.0	5.2	4.9
Other services	18.1	16.1	21.6
Total	100.0	100.0	100.0

Source: Federal'naiia sluzhba gosudarstvennoi statistiki.

Table 3

Employment sector structure in Russia, 1990–2005, percent

Sector	1990	1996	1999
Agriculture	13.9	13.6	11.8
Industry	29.4	24.2	23.7
Processing industry	26.5	20.6	19.1
Construction	10.8	8.4	5.7
Transport & telecommunications	8.2	10.9	13.3
Commerce & accommodation services	7.7	7.9	9.1
Financial services and property transactions	8.5	7.7	4.3
Public administration	2.1	4.1	7.6
Other services	19.4	23.2	24.5
Total	100.0	100.0	100.0

Source: Federal'naiia sluzhba gosudarstvennoi statistiki.

2 Spatial aspects of the power structure and economic development of the Soviet Union

2.1 Core regions in the Russian and Soviet empires

In the development of Russia the years of the late 19th and early 20th centuries produced a breakthrough. A dynamic transformation took place in the Russian economy, although the prospects of achieving West European development levels seemed unrealistic. The moderate, (even, in some cases, more striking) signs of modernisation disguise the basic fact that Russia still remained a traditional society even at the beginning of the 20th century and following a significant period of modernisation which involved radical change. The more modern did they wish to make the country, the more underdeveloped did it become, and the adoption of Western patterns served the conservation of Eastern structures (*Dixon*, 1999). One cause of the current underdevelopment of Russia is that market-determined development failed to bring the country closer to the West. Also in Russia the modern state aimed from the outset at influencing development and counterbalancing market weaknesses. Support for this can be found in the writings of Alexander Gerschenkron who stated that, in Europe, competitive industrialisation simply increased the pressure on backward countries: on one hand it created ideologies of modernisation and industrialisation (including various version of state Marxism) and on the other hand it also forced states and governments to support the development of national economies with their own resources (*Gerschenkron*, 1962, 1970).

One of the visible signs of the underdevelopment of the country was the extremely high level of spatial differentiation. If we examine the economy, infrastructure, settlement network or the educational level of the population, the differences between European and Asiatic areas were huge. In the last decade of the 19th century the most developed industrial areas of the realm were the provinces of Moscow, Warsaw, Vladimir and Saint Petersburg. In these locations, industrial employment per thousand inhabitants was between 32 and 82 persons, while in the least developed areas it was between 1 and 7. According to data from 1892, 1.09 million people (1.2 percent of the total population of 89.15 million of European Russia) worked in manufacturing industry and mining.

In the first decade of the twentieth century industrial production data of the major regions showed 10–12 fold differences. At the beginning of the 20th century the production value of the manufacturing industry averaged 31 roubles for Russia as a whole, but the figures were 87 roubles for the Northwest regions and Baltic areas, 78 roubles for the Central Russian industrial area and a mere 8 roubles for Asiatic Russia. In 1940 the spatial disparities in industry were even more significant. The per capita industrial production of the individual republics of then Soviet Union was 923 roubles in the Russian Federation and 71 roubles in Tajikistan. The

differences in the industrial production indicators between the most and least developed areas increased from eleven- to thirteen-fold during this thirty-year period (Westlund, Granberg and Snickars, 2000). The favourable position of the Russian territories is clearly outlined by investment data: over fifty years Russia was the clear beneficiary of Soviet investment policy. This is evident from the changes in production volumes. However, in this latter case the performance of the Baltic republics merits attention (Table 4).

Table 4

Ranking of Soviet Republics – in terms of investment and production per capita, 1928–1978

Republic	Investment			Production value					
	1928–1932	1946–1951	1956–1960	1970	1982	1940	1956	1967	1978
Russia	1	3	2	4	1	1	4	3	3
Ukraine	3	5	4	9	11	3	6	5	6
Byelorussia	9	10	13	8	7	7	15	6	5
Uzbekistan	10	14	14	11	13	6	13	13	14
Kazakhstan	6	8	1	2	3	8	5	9	7
Georgia	5	4	12	13	8	5	12	11	10
Azerbaijan	2	2	6	14	12	2	7	12	11
Lithuania	–	12	6	6	5	–	8	4	4
Moldova	12	15	15	10	9	11	9	8	9
Kyrgyzstan	11	12	10	12	14	10	11	10	13
Tajikistan	5	12	10	15	15	12	14	14	15
Armenia	8	9	10	7	11	4	10	15	8
Turkmenistan	8	7	8	5	6	9	3	7	12
Latvia	–	6	6	3	2	–	2	2	1
Estonia	–	1	3	1	4	–	1	1	2

Source: Westlund, Granberg and Snickars, 2000.

The new economic policy (the NEP), which followed the war-time economy at the beginning of the 1920s, is the only period of regional policy in the Soviet Union when there was an extremely high demand for a reduction of spatial disparities. In the mid-1920s, the mobilisation of local resources became a fundamental task in the cause of economic reconstruction, but a lack of resources meant that the central government was incapable of implementing it, and for this reason the economic organising authority of regional state institutions became important. The clear political ambitions of the proletariat and of the united peasantry brought an entirely new factor to the reorganisation of regional economies. Provinces with economically weak and underdeveloped industry were incapable of creating the necessary

links between industry and agriculture and the problem of supplying the population with basic industrial products was insoluble (*Shtoulberg, Adamesku, Khistanov and Albegov*, 2000). The scientific results of researchers into Russian economic geography concluded that to integrate the peripheral areas colonised by Tsarist Russia into one unitary state needed very special means.

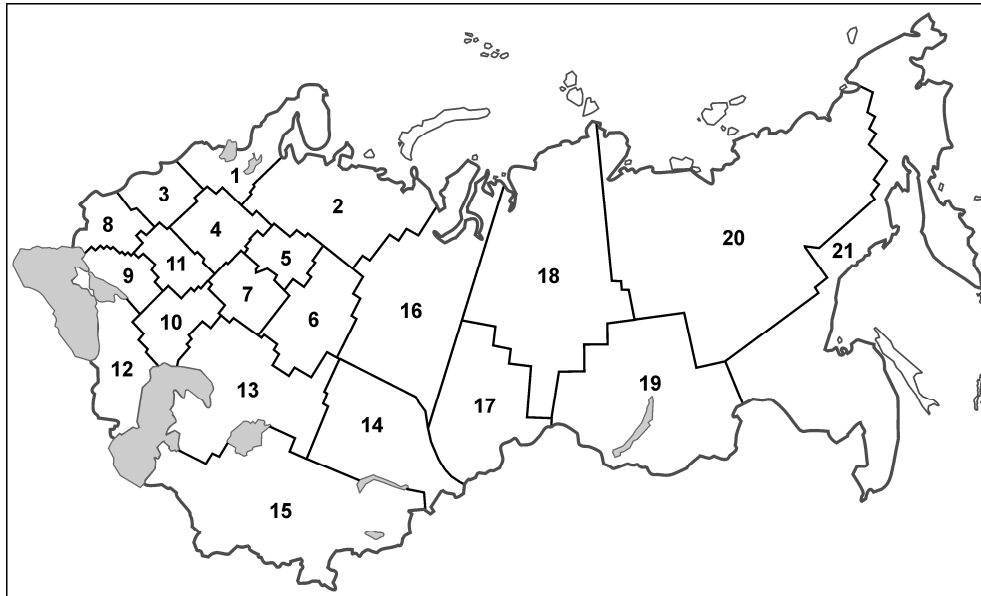
The first general *industrial reform* of the Soviet Union was introduced in the so-called GOELRO Plan (State Electrification of Russia) which involved the electrification of the country. The public administrative conditions for implementing this monumental plan which included constructing power stations and developing industry to utilise the produced energy, and the smaller regional units were unable to work out overall economic development programmes. Parallel to the plans for electrification, the work of transforming the public administration of the country was in progress. The government used proposals relating to the geographical regions of Russia early in the modernisation of public administration and the establishment of regional bodies of central state authorities (*Tarkhov*, 2005). The first version of the GOELRO Plan suggested a total of 9 regions to organise the implementation of the plan, but finally, after much debate, 21 economic regions designated by the Russian central planning committee were approved to work out energy and general economic development programmes and to organise their implementation (*Figure 1*). Twelve of these regions were situated in the European part of the country and 9 in the Asiatic. However, local political elites effectively forced the creation of new economic regions, the first five-year-plan being worked out for 24 and the second for 32. The political power of these regions lay in the fact that the local offices of the Russian national economy determined development plans for the whole region jointly with the local authorities within the regions and worked hard to gain more central resources.

During the NEP, fundamental changes were introduced into the administrative organisation system of the country. The elimination of bodies dating from the old Tsarist administration had started, but many elements of the old administration had coexisted with the new forms for 15 years or so. The Stalin constitution enacted in 1936 produced radical changes (*Table 5*).

The main activity area of the first industrialisation concept of Soviet Russia was the already industrialised European part of the country (west of the Urals). More than half of the industrial investment was made in the old industrial areas, bordering on the Volga and adjacent to the Urals, in the Kuznetsk Basin. The new industrial plants established close to raw material sources (not for spatial development purposes, but for defensive reasons) contributed to an eastward shift of the industrial heartland of the country, and in the 1930s these areas became the main focus of industrialisation. For example, in 1936 36 percent of new investment was made in these areas, and in 1937 the output of the old industrial areas was 68 percent higher than in 1925. Between 1930 and 1950, the growth in the machinery manufacturing areas of Moscow, Gorky and Kuibishev was many times higher than the

Figure 1

The economic regions of the planning committee, 1921



Legend: 1 – Northwestern; 2 – Northeastern; 3 – Western; 4 – Central (Industrial); 5 – Vjatka–Vetluga; 6 – Ural; 7 – Central Volga; 8 – Southwestern; 9 – Southern Highlands (Industrial); 10 – Lower Volga; 11 – Central Black Earth (Chernoziom); 12 – Caucasian; 13 – Western Kyrgyz; 14 – Eastern Kyrgyz; 15 – Central Asian; 16 – Western Siberian; 17 – Kuzneck–Altaic; 18 – Yenisei; 19 – Lena–Angara; 20 – Yakut Lander; 21 – Far Eastern.

Source: Khorev, 1981. p. 114.

Table 5

Regional units, 1922–1937

Name	1922	1929	1937
Federal republics	3	6	11
Autonomous republics	9	15	22
Autonomous regions	10	16	9
Border regions (krajs), regions (oblasts)	–	8	47
Districts (incl, ethnic)	–	176	35
Administrative districts	–	2,426	5,567
Governorates	84	16	–
Uiezd (administrative districts)	759	298	–
Volost (rural districts)	15,072	1,595	–

Source: The author's own construction based on Tarkhov, 2005 (appendices).

production of the textile industrial area of Ivanovo. The industrial output of Omsk, Novosibirsk and the Kuznetsk Basin was much higher than the value of production in Tyumen, today's leading industrial area. Before World War II the, collective industrial output of Moscow (the metropolitan area) and the Moscow oblast was significantly higher than that of Siberia. The industrialisation of the Central Asian peripheries, on the basis of statistical surveys, seemed to be an extremely large-scale operation: the increase in industrial output of Kazakhstan, Armenia and Georgia was 12-fold, of Kyrgyzstan 14-fold and of Tajikistan 26- fold between 1928 and 1937. At the same time, 300 thousand people worked in the 3,500 newly established industrial plants, although employment per plant averaged less than 100.

In the second half of the 1930s, quasi-democratic regional policy disappeared from the Soviet Union. The regional economic councils were disbanded and the federal republics, established under the 1936 Constitution, determined regional policy. The economic management role of the republics was, in practice, very modest and far less than that of the former economic regions. The economic responsibilities of the republics were limited to the implementation of their part of any national plan: at most they had a degree of independence in arranging the modernisation of ethnic peripheral areas.

The dynamic development of new industrial areas started during World War II. From the Western parts of the country 2,600 industrial plants were relocated towards the East. Of these, 58 percent were moved to the Urals and to the Volga area and 16 percent to Western Siberia (*Treivish*, 2002). In 1941, most Moscow companies were evacuated from the city to the east and to Siberia. As a result, the production of the European industrial areas was halved. According to data relating to value, the significance of Siberia was even less, but there was an essential growth in terms of numbers employed (*Table 6*). After World War II, the development of Western areas accelerated. 7,500 factories which had been destroyed had to be rebuilt, while, in the eastern areas, the oil, gas and other raw material producing industries based on the geological research into natural resources dating from the '30s started at the end of the '40s. The Eastern regions (Kazakhstan, Siberia and the Far East) strengthened their position in raw material production terms (*Table 7*).

At the beginning of the last century the key areas in the development of manufacturing or processing industries and in the modernisation of living conditions, both in Russia and in the Soviet Union, were the *historical city networks*. Until the Bolshevik Revolution, city development in Russia had progressed in much the same way as under the rules of European urbanisation. Occasionally, the normal flow of development was modified by administrative reorganisation and both favourable and unfavourable changes occurred. In Tsarist Russia, administrative functions as one means of encouraging city development (a factor of under-development) combined with economic factors, although with a significant time-lag. At

the end of the 19th century, the urban population amounted to 15 percent of the total. The first census in 1897 listed 461 towns or cities in the European part of the country and 51 in the Asiatic part. The urban population exceeded 20 thousand in 15 percent of towns. Of the 76 larger cities, two (Moscow and Saint Petersburg) had populations of over 200 thousand, five (Astrakhan, Kazan, Saratov, Rostov-on-Don) between 100 and 200 thousand, whilst 17 had from 50 to 100 thousand and 52 from 20 to 50 thousand. In 1926, the number of towns with a population of more than 100 thousand increased to 22 (*Table 8*).

Table 6

The significance of Russia's three industrial regions based on employee numbers and production value, 1900–2000, percent

District	Number of employed					Production value				
	1900	1925	1950	1975	2000	1900	1925	1950	1975	2000
Old industrial areas ¹	64	61	42	40	33	50	65	68	42	30
New European industrial areas	30	33	39	41	47	33	31	27	38	40
Eastern regions	6	6	19	19	20	17	4	5	20	30

Key: ¹ Saint Petersburg and surroundings, Central industrial region and the Central Urals.
 Source: Treivish, 2002.

Table 7

Significance of the eastern regions in specific product areas, percent

Product area	1940	1960	1965
Electricity	9.2	21.6	29.4
Natural gas	0.5	2.4	78.8
Coal	28.7	35.9	58.8
Iron ore	1.7	11.1	16.3
Timber	23.4	26.2	37.3
Cellulose	–	9.3	29.6
Artificial fertilisers	6.9	15.9	13.7
Cement	13.5	21.4	26.0

Source: Shtoulberg, Adamesku, Khistanov and Albegov, 2000. p. 43.

Table 8

Population changes in today's large cities, 1897–2005, '000 inhabitants

City	1897	1926	1989	2005
Chelyabinsk	25	59	1,030	1,095
Khabarovsk	16	44	598	579
Irkutsk	52	98	622	583
Yaroslavl	71	114	629	605
Yekaterinburg	43	136	1,363	1,304
Kazan	130	179	1,085	1,110
Krasnodar	66	163	619	715
Krasnoyarsk	27	72	912	917
Magnitogorsk	...	210 ¹⁹³⁶	439	417
Moscow	1,039	3,641	8,677	10,407
Murmansk	13	73	472	325
Naberezhniye Celine	...	9 ¹⁹³⁹	505	508
Novosibirsk	70 ¹⁹¹⁵	120	1,309	1,406
Nizhny Novgorod	90	186	1,435	1,289
Omsk	38	162	1,149	1,143
Perm	45	168	1,092	989
Rostov-on-Don	120	177	1,008	1,058
Samara	92	271	1,257	1,133
Saint Petersburg	1,265	1,616	4,435	4,600
Togliatti	5	...	629	705
Ufa	49	97	1,080	1,058
Vladivostok	29	108	631	587
Volgograd	56	148	995	999
Voronezh	81	120	882	849

Source: For 1897 and 1926: www.populstat.info/Europe/russiat.htm [6 April, 2008], for 1989 and 2005: Chislennost naseleniia RSFSR. 2001.

As part of the reform programme at the end of the 19th century, the Russian Interior Ministry elaborated a twenty-year urban development strategy for the European part of the country. In practice, however, very little of this ambitious plan was realised: Murmansk, Tuapse and certain other settlements were given municipal rights. Urban settlements and other proletarian strong-points were seen as political allies of Soviet power and 90 settlements were given town status between 1917 and 1926. During the period of the first five-year-plan (1921–1925), most of these towns were organised in the Urals-Kuznetsk industrial area, and Novokuznetsk, Prokopevsk and Belovo were also elevated to town rank at that time. The rapid industrialisation resulted in a wave of announcements of new towns, and by 1939

100 new settlements were designated as towns, and within the Russian Federation itself the number of towns increased to 520 (*Lappo*, 2005).

The logic of industrial development also left its mark on urban development during and after World War II. Characteristic of this period was the increase in terms of quantity of the Trans- Urals city network. 80 percent (that is, 182 towns) of today's 230 towns of Siberia and the Far East were raised to town rank post-1917. In pre-revolutionary Siberia there were 51 urban settlements; during World War II 12, in the following 45 years 107 settlements were designated as towns and 12 new towns were even organised in the 1990s (*Leksin*, 2006).

2.2 The illusion of local and regional autonomy during the 1920s

The first decrees of the 1917 Revolution dealt with the transformation of power relationships. The first administrative orders of Soviet power, which concerned the Supreme Economic Council, labour supervision, the organisation of local authorities and the designation of new boundaries for regional authorities, aimed at implementing the administrative regional scheme and integrated economic zoning.

Conflict between different regional organisational strategies was rooted in the appraisal of autonomy and federalism from different points of view. The decision on "The Federal Institutions of the Russian Republic", accepted in January 1918 at the 3rd All-Russia Congress of Soviets, was drafted in a spirit of democratic centralism, that is, it laid down quite clearly that federation could only be organised in such areas whose peculiar lifestyle or ethnic composition differs from their surroundings. Attacks were directed at the "republics" which claimed semi-independent statehood, elected their own government and commissars and issued local banknotes. Regional autonomy was organised in different territories of the country. Considering its ideological grounds, the Siberian independence movement, the so-called "oblastnichestvo" was the most respected organisation. The movement was founded by Siberian university students studying in Saint Petersburg in the 1860s and who, returning to Siberia, carried on the fight against Russian colonists and demanded the total autonomy of the region and a federal transformation of Russia. From 1918 the central authority continuously strove to eliminate the Siberian autonomist organisations (*Bykova*, 2001).

As a result, and due to measures adopted by the "republics" of the Urals, Kursk, Tver and Kaluga which conflicted with decisions of the central government, the issue of further organisation of new, larger regional administrative bodies (the so-called regional unions) was removed from the agenda. These regional confederations were one variation of the state's new regional organisational arrangements.

The conflict between different factions grew to its most intensive in the period when the first Soviet constitution was being prepared. The wing of the Bolshevik Party led by Lenin expected the constitution to provide for the effective harmoni-

ous cooperation of local and central bodies, whilst the regional federalists did not abandon their original ideas. In addition, there were other concepts which tried to build the state on a federal system of professional alliances. Lenin emphasised the dialectic connection of centralised state power and local autonomy and at the time of the publication of the Decrees creating fundamental institutional systems of economic administration he committed himself in these terms: “Every attempt to established stereotyped forms and to impose uniformity from above, as intellectuals are so inclined to do, must be combated. Stereotyped forms and uniformity imposed from above, have nothing in common with democratic and socialist centralism. The unity of essentials, of the substance, is not disturbed but ensured by *variety* in details, in specific local features, in methods of *approach*, in *methods* of exercising control, in *ways* of exterminating and rendering harmless the parasites... The more variety there will be, the better and richer will be our general experience, the more certain and rapid will be the success...” (Lenin Collected Works, Vol. 26. p. 413., p. 415.).

In time, the political fight between the followers and opponents of the Lenin wing turned to the field of economic policy. The first trade union debate, held in January 1918, showed signs of this, different views concerning the duties of trade unions and the regulation of industry and labour supervision clashing. In their theses, published after the Treaty of Brest, the “Leftist communists” – *Bukharin, Preobrazhenski* and others – expressed their opinion that: “The form of public administration is bureaucratic centralisation and this has to develop in the direction of a regime of commissars, the stripping of autonomy from local soviets and the effective abandonment of the bottom-up type of “common state”” (quoted by *Szamuely*, 1979. pp. 99–100.). The authors highlighted their own economic management ideas in these terms: “The management of companies should be passed to mixed bodies made up of workers and technocrats and these should be supervised and managed by national economy soviets. The whole of economic life should be subordinated to the organising influence of these soviets...” (the same author, *ibid.* p. 101.).

To offer some insight into the deeper motives of the conflict, let us review – in the broadest possible terms – what happened in the field of economic organisation in Soviet Russia up to the Spring of 1918. The first steps to introduce a socialist state institutional system – the publication of orders concerning workers’ control and the Supreme Economic Council – were taken in 1917. Both institutions – in the same way as privatisation in the economic sector – had an overall local organisation system. Whilst between the Supreme Economic Council and its local bodies (the economic departments of the Soviets or, in the absence of these, the local bodies of the Supreme Economic Council) the dominant feature was of a hierarchical management system, the All-Russia Workers’ Control Council (a product of the influence of the Mensheviks) was incapable of effective operation. Since most industrial firms were privately owned, supervising the production of the private in-

dustrial sector was the basic activity of the Supreme Economic Council at the very beginning of its operation, and it was entitled to intervene only in cases involving a narrow range of state companies.

Later, its local-regional bodies, as they grew stronger with the progress of nationalisation, were able to organise and regulate both the public and private economy in their area and to do this with relative harmony between local and state interests. In their operation, this dual subordination ensured the implementation of principles of democratic centralism. These were socially open organisations since the membership of these councils comprised the body elected by the councils of factory committees, representatives of the Soviets and company professionals. In this way the regional economic councils organised, regulated and planned all economic sectors within their area of competence. Their decision-making power was, in practice, unlimited in the whole sector of production, distribution and consumption.

However, as matters developed, the cautious nationalisation efforts of the local economic institutions of central state power were made unworkable by the spontaneous actions of local workers' control councils and, due to this, the rapid nationalisation which had started in the country could not be followed by regularisation aimed at stabilising management relations. Soon the problems of socialist management were in the foreground of the political, and also the economic, conflict. Decentralisation, growing from nationalisation movements, did not slacken speed; rather it boosted the economic decline and anarchy of production. In this way the problem of combining the two management methods (individual responsibility and labour-controlled production) arose very sharply.

The conflict was a success for the Leninist faction. The decision concerning the management of nationalised enterprises was made from the top and promoted the harmonisation of local and central interests, implemented individual responsibility management and ensured broad initiative from the working classes and centralism (the central discipline of management). Factory management boards (and directorates-general of "mixed enterprises" operating industrial plants physically far removed from each other in terms of distance) were subordinated to bodies of regional national economy councils and regional management of nationalised enterprises (to the central directory in the case of enterprises managed directly by the Supreme Economic Council). Regional management (comprising candidates elected by the People's Soviet of representatives of factory management boards and the coalition of regional trade unions) were bolstered in their office by the regional national economy soviet, and the mechanics of creating management bodies also stabilised the position of the individual management concept.

Within a short period of time the management mechanism of the universal, rudimentary economic operational *war-time communism* seized control of the direct horizontal links between the basic units of production and the development of strict vertical organisation management hierarchy, while the "glavk" (chief committee)

system eliminated, temporally inactivated, or, rather, stripped all power from every element of local-regional economy management which had formed and was gradually showing signs of operational maturity (Malle, 1985). Article 61 of the first Constitution of the Russian Soviet Federal Socialist Republic (RSFSR) was drafted in the following form: “Regional, provincial county and rural organs of the Soviet power and also the Soviets of Deputies have to perform the following duties: a) Carry out all orders of the respective higher organs of the Soviet power; b) Take all steps for raising the cultural and economic standard of the given territory; c) Decide all questions of local importance within their respective territories; d) Co-ordinate all Soviet activity in their respective territories” (1918 Constitution [Fundamental Law] of the RSFSR). It suggested the strengthening of centralisation in that the organisational system of the central authority was defined thematically and, perhaps, by the fact that in the basic law there was no mention of an organisational system of production management.

The operation of industrial centres, which were poor in terms of experience, professional individuals and methods and which coped with the performance of rudimentary plan indices with difficulty, was hindered by the high numbers of units managed (one industrial directorate looked after, on the average, some 60 firms (which were widely separated in spatial terms). Therefore, what was started was the organisation of planning deconstruction and monitoring of the so-called unions or trusts at the meso-level. In the early 1920s, 179 trusts (comprising 1449 firms) were in operation (Venediktov, 1957). The two-tiered form of company management deriving from trusts organising on a sectoral base, clearly strengthened central influence. However, the creation of these American-style “trusts” (groups of nominally independent companies which are centrally directed) to enforce regional discipline, suggests acknowledging the need to take steps due to a lack of horizontal connections.

There can be no doubt that there was a part to play by local economy management bodies in relaxing corporate verticalism. At the very beginning of the revolution, the managing bodies of regional economies were national economy councils operating in dual subordination. This type of body was not eliminated during the era of glavkism, but their former authority was withdrawn, and so they became the executive bodies, managing local small-scale industry for the Supreme Economic Council to the end of 1919. The effective organisers of the economy were the local branch organisations (“apparatus”) of the industrial chief committees. These local council organisations increasingly started to point out the operational mistakes of economically isolated vertical unions – not merely because of their economic bases being restricted to the extreme, but also because it became quite clear that maintaining production was impossible with the centralist methods due to fluctuations in production factors, chaotic transportation conditions etc.

Relatively soon it also became clear that local economy management bodies, with their lack of proven methods and of trained professional staff, could only op-

erate within a narrow range, primarily in the direct and operative management of production, based on decentralised decision-making authorisation. Since the Supreme Economic Council was incapable of effective management of the companies directly subordinate to it, regional industrial offices were created and many provinces came within their competence. On the one hand, these new executive bodies of the Supreme Economic Council directly managed the companies under their control, while, on the other hand, they harmonised the activity of all the economic units of a certain area. Their task was to manage the work of provincial (regional) national economy councils and the economic departments of the Soviets.

The changes in the field of economic management were uniformly adopted by the 8th All-Russia Congress of Soviets in December 1920. The Congress passed important resolutions for each level of management. It suggested that the main task of the Supreme Soviet of the National Economy would be the overall planned management of industry and it also proposed the expansion of functions and authority of local national economy councils. The resolutions on local economy management bodies transformed the industrial directorates and chief committees of the Supreme Economic Council into the managing, regulatory and supervisory bodies of provincial national economy soviets. The most important position adopted by the Congress may be the resolution which suggested the creation of provincial and district coordination bodies, economic conferences (Russian: *ekonomicheskoe soveshanie*, abbr. EKOSO) to promote the implementation of a unified national economy plan.

At the very beginning of 1921, district and provincial economic councils met and regional coordination bodies were created in areas where organisational units already in existence were able to cope with the new functions. The Council of Labour and Defence created a specific committee to arrange the regulations of regional economic conferences. The Council of Labour and Defence passed the committee's proposal and a document was published entitled "Provisional decrees concerning regional economic bodies".

This resolution indicated the responsibilities of congresses – that is, that they need to observe the implementation of economy-related decisions of supreme bodies, draw up the economic development plans for their region, coordinate the work of provincial economic congresses in their area of competence, control the execution of production programmes of the unified National Economy Plan and, last but not least, by means of their activity, encourage and improve the development of local innovation and initiative. The regional economic congresses operated as bodies of the Council of Labour and Defence and their president was appointed by the Council.

The Bolshevik leadership tried to restore the functions, defined in the original plan, of local economic bodies through the new economic policy. At the same time, the regional economy congresses, covering many provinces, embodied regionally organised centralism and it was necessary to beware of these becoming an obstacle

to local initiatives and local economic policy. Therefore, the XI All-Russia Congress of the Russian Communist Party (Bolsheviks) considered it necessary to emphasise that: “Whilst we thought it appropriate both from economic and technical aspects that state companies with a similar profile or dealing with each other should come together under a unified management on a provincial, regional or nation-wide scale, at the same time we need to fight against the revival of the rejected system of ‘glavkism’. Based on the resolution of the 9th Congress of Soviets, the companies placed in the hands of local soviets together with their unions, remain under the management of provincial executive committees and they can only be handed over to national or regional unions by agreement or in the absence of such, by a decision of the Presidency of All-Russia Central Executive Committee” (Congresses of the Communist Party of the Soviet Union. p. 701.).

In August 1922, after debate by various bodies, the All-Russia Central Executive Committee and the Council of Labour and Defence passed a joint resolution concerning extending the authority of regional and provincial economic congresses. The economic and planning influence of soviets was considerably strengthened by this resolution, which transferred the redistribution of state financial means between authorities to the competence of regional economic councils and defined specific responsibilities, ensuring greater independence for the creation and distribution of independent financial funds.

Democratic centralism in the operation of economic conferences was ensured by this dual subordination since they were required to report on their activity both to the competent executive committees of soviets and to the Council of Labour and Defence. However, the contradictions in the explanation of the relationship of centralisation and decentralisation left their mark on the new economic management system, not to mention the problems originating from disagreements over the creation of power-structural social relations.

At that time, dual subordination was not used mechanically. Lenin indicated, that “Dual subordination is needed, where its is necessary to allow for a really inevitable difference. Agriculture in Kaluga Gubernia differs from that in Kazan Gubernia. The same thing can be said about industry, and it can be said about administration, or management as a whole. Failure to make allowances for local differences in all these matters would mean slipping into bureaucratic centralism, and so forth. It would mean preventing the local authorities from giving proper consideration to specific local feature, which is the basis of all rational administration” (Lenin Collected Works, Vol. 33. p. 366.).

The institution of economic conferences, in terms of its organisational disciplines and its operational and characteristic features, was either already able, or soon became able, to harmonise central and local objectives, to coordinate the vertical and horizontal socio-economical processes, to harmonise sectoral and regional interests and, last but not least, by enhanced financial and funding independence, to become an important link in the economic management of the planned economy. A

well-functioning, coordinating institutional system of sectoral and regional planning and regulation was established without eliminating or radically transforming a satisfactorily functioning economic organisation system of socialism, and without having made any concessions at the expense of the functions of central government, so strengthening the totally planned nature of the economy. The economic soviets could accomplish their direct economic management tasks effectively only with the involvement of the broad masses, and so it is no accident that they were kept in evidence as the essential sphere of action of economic democracy. The reports of the economic conferences accumulated much useful information about the spatial operation of the economy. These documents are rich source material for today's researchers.

After the foundation of the Union of Soviet Socialist Republics in 1922, a republic economic council was organised in the Russian Federation for the management of economic councils and, for a while, the coordination bodies of the other federal republics were held jointly by the Council of Labour and Defence, after which the republic EKOSO-s were also organised. These organisational measurements already managed to show some sort of centralisation tendencies which were proved by the partial reorganisations made in 1923. At this time only the district-level economic conferences were dismantled, but in the second half of 1924, most of the regional and provincial economic councils started to be liquidated. The two most effectively operating, and at the same time located the farthest distance from central government and with a specific power structure, economic coordination body, the Siberian Revolutionary Committee and the Far East Revolutionary Committee (the institutions of *oblastnichestvo*) were liquidated only in 1925 and 1926 (*Abdulatipov, Boltenkova and Yarov, 1992*). What are the factors originating from the development of the Soviet economy of the 1920s and concomitant with the formation of power-political relations which strengthened the positions of the sectoral-central management of the economy, and, for no short time, disrupted the success of sectoral and regional aspects of the earlier balance of forces in the management of economic operations?

First, there is no doubt that the sphere of activity of central management in the economy was broadened by the economic policy programmes which ensured the proportionality of the spatial location of the country's forces of production. The Soviet Union selected its economic development strategy in such a way that, on one hand, it would be possible to reduce the economic gap between it and the developed countries and, on the other hand, the rapid development of the areas actually lagging would start after the economic, political and social emancipation of nations and ethnic groups had been guaranteed. In this way, economic policy must, in the interest of the whole country, ensure effective spatial development and equalisation of difference in development levels of the regions.

Second, the degree of freedom of action of regional management of the economy was increasingly restricted by the tendencies towards centralisation of corpo-

rate management which developed in the company organisation system. An essential element of the new economic policy was the creation of opportunities for self-financing and independence. However, it soon became clear that most state firms were unable to cope with their production organisation functions (in the mixed economic relations situation which derived from fierce competition and with an under-trained specialist team), it was desirable to concentrate company management functions and force companies into uniting with others (forming trusts as mentioned earlier) and organising them in a vertical or horizontal way. At first, most of these “trusts” were under the direct management of the Supreme Economic Council, but later they were transferred into the competence of the newly-formed economic Conferences of federal republics, although 72 defence and export-oriented companies producing strategic goods, or strategically important industrial and transportation trusts remained under the direct control of the Supreme Economic Council of the Soviet Union. The local industrial trusts operated under dual subordination (the republic’s, provincial and regional economic conferences). I need hardly say that the management of the trusts demanded differentiation from central bodies. This reorganisation was typical of the Supreme Economic Council and, within the scope of it Central State Industry Directorate (consisting of sectoral directorates) was organised at federal level. The establishment of the centrally initiated and strongly centralised system of trade and product distribution for the industrial syndicates resulted in a further tightening of economic objectives and processes, managed by regional bodies. Both industry directorates and syndicates quickly built up their regional organisations, although these, because of their de-concentrated nature, were almost exclusively enforcing sectoral interests and the central will and were completely isolated from regional bodies. We can conclude that the establishment of the concentrated and centralised company structure is an obvious obstacle to the success of management relations which result clearly from the regional division of labour.

Third, parallel to this narrowing of the area of competence (and accelerating the process) of spatial economy management bodies, a hierarchic institutional system of national economic planning was set up. In favour of compiling and implementing the national economy plan, the regional economic conferences formed planning boards. The activity of these was, basically, the arrangement of the annual and long-term economic development plans of their region, but, beyond that, they carried out considerable fact-finding and conceptual work, e.g. the division of certain areas into districts. The regional planning committees gradually took over the fundamental planning functions of regional economic councils and these latter became local industrial departments, joining up with the communal departments of the Executive Committees of the Soviets. The significant changes in sectoral management which were confirmed by Supreme Soviet legislation up to 1932 clearly showed the sole leading principle of the economy.

2.3 Attempts at space-centric economic management at the end of the 1950's, and the failures of regional policy

As a consequence of the temporary loss of ground of the established Stalinist political regime it became clear by the end of the 1950s that the multi-stage sectoral management systems of the planned economy had created a whole chain of adverse events. The majority of the negative influences arose from the over-centralised character of the decision-making process. No insignificant part in this process can be attributed to the fact that the structure of centralised management was so differentiated that the multi-coloured sectoral management made the effective development of inter-sectoral coordination, of inter-corporate cooperation almost impossible, and the product-oriented system of sectoral organisation became the bedfellow of sectoral chauvinism and autarchy. The excesses of sectoral management are, for instance, illustrated by the fact that, in the middle of the 1950s, the number of industry-related ministries was around ten (even in those republics with low economic potential) and the number of industry directorates subordinate to these was in the neighbourhood of several dozen. An additional source of difficulty was that, due to the large number of coordination duties appearing at regional level, cooperation between the local and regional management and control bodies (not only councils acting in tight dual subordination circumstances should be included in this, but regional parties also), central management was almost uncontrollable. The politico-economic practices of the era neither demanded horizontal cooperation nor considered it a fundamental principle of economic organisation.

The negative influences of hierarchic sectoral management exerted on regional development revealed themselves in a most complex manner in the Soviet Union. By the middle of the 1950s, the extensive industrialisation which significantly changed the regional structure of productive power was already complete. Economic necessity (according to which, if an increasing proportion of is spent on improving living standards and on the improvement of the retail infrastructure, increased economic performance can only be achieved with the increased utilisation of existing fixed assets together with a slowing growth rate of new facilities) showed itself here for the first time. At the same time, the economic results drew attention to the fact that complicated sectoral management is quite unable to influence in any rational or direct way the fundamental units of the economy.

At the plenary session of the Communist Party in July 1955, a number of the opinions voiced pointed out the failings of the economy. According to these, the development of economically practical forms of production organisation, of industrial cooperation and specialisation is stunted by the inflexible, sectoral industrial management so burdened with parallelism. The scope of measures which were taken very rapidly after the plenary meeting is shown by the fact that, in that same year, several Russian Federation ministries were liquidated and in the companies

operating at republic and local and regional level the number of staff increased from 33 percent in 1950 to 47 percent (*Bishaev and Fiodorovich*, 1961).

The need for radical changes in economic management was also voiced at the plenary session of the Central Committee of the Communist Party in February 1957. The resolution adopted in respect of the modernisation of manufacturing and construction industry organisations committed itself, among the various alternatives of multi-stage industrial management, to management on a sectoral basis. The plenum considered the principal starting-point of reorganisation to be the approach of management to production, the expansion of the spheres of authority of the federal and autonomous republics, the enhancement of the economic organisational role of local and regional bodies of the council, party and trade unions, and the increased involvement of the masses in economic management.

To provide a new basis for the regional management system was the direct consequence, and, in fact, to some extent a precondition for concepts to be realised. In the reformed regional scheme *economic regions* played a key role. Their establishment and designation were the fundamental motives for the establishment of the practical units of economic and administrative regionalization. Economists and economic geographers of the era saw this as a guarantee of the effective operation of the new administrative regional units (*Alampiev*, 1959, 1963; *Kolosovskiy*, 1958, 1961). They tried to support their advantage over the former administrative units with several arguments. In the first place they asserted that the new administrative regions are economic complexes and, although much smaller than the former economic regions, their specialised character becomes more clearly distinct. The higher standard of specialisation provides more advantageous conditions for the establishment of simpler management forms and the opportunity to develop regional chauvinism and autarchy is smaller in the less structured units. Further arguments for the economic regions were the economic processes and the more reasonable concerted character of the operating basis of regional governmental organisations and those of the Party. The coincidence of the politico-governmental sphere of power and the economic sphere could significantly expand the sphere of authority of regional planning and regional management in general, and increase the depth of their potential for influence, so also enhancing local initiative.

A much deeper change to the regional organisation system lurked behind the formal changes to the spatial basis of the economic management system. (Earlier, the new economic regions followed the boundaries of former regional administrative units. At first, it was planned to establish 92 regions (oblasts), although their actual number turned out to be 105 – a figure soon afterwards reduced to 47.) The economic councils established in the administrative regions became the organisational repositories of comprehensive administrative reform. These were bodies subordinate to the Council of Ministers. The Act of 1957 outlining their jurisdiction highlighted especially the fact that these economic councils are administrative bodies and can be controlled by the Council of Ministers of the Soviet Union only

through the republic's councils of ministers. Thus, the control of the economic councils did not follow the traditional principle of dual subordination. Their relations to the regional councils was featured by the fact, that on the one hand they had to report on the activities of the companies operating under their jurisdiction to the executive committee of the council, and on the other hand, in complex economic development matters they were obliged to maintain close coordination with the councils. (Thus, in terms of organisational principles the economic councils significantly differed from the similar institutions of the 1920's. That is, the majority of the then existing regional economic bodies operated in dual subordination: as the independent organisational unit of the Soviet region it was also under the control of the Supreme Economic Council.)

The law treated the economic councils as regional management and special administrative bodies. Their structure distinctly followed sectoral principles. Through these sectoral bodies (directorates general, directorates) the economic council directly controlled the companies attached to it. The controlling authority of sectoral directorates covered the corporate operation in full. They were responsible for the material-technical supply of production, for the development of interregional cooperation and of cooperative relations within their district; they virtually controlled the tiniest details of industrial planning and organisation. Their task was to approve the corporate organisational and operating rules and regulations and to appoint the leaders of the producing industrial units. It was not accidental, therefore, that those criticising this organisational structure regarded as the key inadequacy of the organisational system, that the "Company – economic council" two-stage chain of control remained, in practice, three-stage.

The other organisational direction of the division of labour established in regional economy management was represented by soviets (councils). While industrial organisations and organisations of the construction industry were controlled by the economic councils, local Soviets were responsible for agriculture, and for the non-producing sphere. Through the gradual decentralization of administrative jurisdictions the economic management independence of these councils strengthened at the beginning of the reforms. However, at the beginning of the 1960's, a process began under which local industrial companies were withdrawn from their jurisdiction and finally handed over to the economic organisations. Based on their management relations to the economic sphere, the government – power organisations (unified up to this point) were divided into two types: industrial (urban) and agricultural (rural) Soviets, and the political establishment was also reorganised based on the production functions. In the agricultural areas, kolkhoz and sovkhos (Soviet-style collective farms and State farms respectively) production directorates were established to carry out public administrative and party duties instead of district party committees.

The number of economic councils was reduced to 47 in 1962, and the three-stage planning system (economic region, administrative region and district) was

replaced by a four-stage system. 16 economic macro-regions comprised the upper level; an increased number of regions of the economic councils made up the second, 137 autonomous republics, administrative regions (krais and oblasts) made up the third, whilst 2,724 districts were the fourth level.

Summarising the results of this era of Soviet economic management, we can confirm that regional factors definitely outweighed sectoral management, and through this the upper decision-making levels were deprived of the possibility of uniform management, concept creation and execution. It is obvious that, in this way, a number of aspects of sectoral optima, represented by the specialised sectors and covering the entire country could not prevail. The mobility of budgetary investment instruments among the individual areas significantly decreased. As for industrial development, regional interests came into prominence: two-thirds of industrial investment was initiated and financed by the economic councils, and there was no uniform industrial development concept in operation, not even a sectoral one.

The economic councils aimed at the large-scale improvement of industry in their respective regions, specialisation was overshadowed and economic relations between individual regions weakened. Even though the elimination of the hugely over-centralised management of industrial companies, of corporate isolation within a single economic district (due to subordination to the supreme authority) proved successful, the power of the local bodies formally increased. Nevertheless, reorganisations could not bring visibly better results in production, since it was only an organisational restructuring of management which took place: the administrative regulation methods of production remained dominant in corporate management (Zaleski, 1967).

Management difficulties which could be linked to the organisational structure had not lessened; in fact, they had even increased to some degree by conflicts and disputes concerning the *delimitation of the regional units of public administration, economic management and planning*. Representatives of the disciplines dealing with the spatial aspects of socio-economic processes proved several times convincingly that spatial basic units – in contrast to the principles of the reform – are not economic regions (Khrushchov, 1966; Probst, 1965; Shkolnikov, 1965). The first version of the economic management region system was unfavourable for long-term planning, while the second version was unsuitable to reconcile the complicated management relations which had developed in the region. The less stable regional organisational system also provided reasons for the strong differentiation of the economic productive capacity of regional units and of the standard of production. All of these hindered regional equalisation; it did in fact further increase the differences. This process was even supported by the fact that the regional orientation of economic management had scarcely any effect on regional planning; the degree of complexity of regional plans even decreased. The planning activity of the economic councils – however obvious the analogy seemed – could not be iden-

tified with regional planning. The planning activity of the local regional bodies of the council covered only the relatively narrow local economy. Regional plans were, in effect, made only on the federal republic level (*Pavlenko*, 1984; *Pchelintsev*, 1966, 1983). Despite the beneficial effects of the elimination of sectoral isolation which earlier hindered development, the uncalculated adverse effects (which conflicted with the basic concept of economic management) reduced the effectiveness of the economic operation, and this contributed to the long-term decline in the rate of economic growth in the Soviet Union.

We can identify several unique features of the regional economic structure of the soviet era even though the prevailing State ideology and policy did not recognize the failure of the planned economic decision-making system in shaping the spatial structure. The main features of the regional organisations of the Soviet empire were:

1) The strong concentration of population and economy (especially industry and services) in the European parts of the country. On the other hand, the focal point of the extraction industry was in the areas extending East and South of the Urals. In the middle of the 1980's, an annual 1 billion tons of raw material flowed from the eastern regions to the western industrial areas, involving up to 3,000 kilometre of haulage. Industrial development programmes of Siberia and the Far East were exclusively limited to the production of raw materials, and workers were given special motivation not to leave the area. These solutions were both extremely expensive and unsuccessful.

2) The implementation of extreme, specialised regional development programmes in the spirit of "gigantomania" in the interest of demonstrating the superiority of sectoral ministries. In many regions and cities, development was based on a single sector of the extractive industry. For example, in the area of Ivanovo, the majority of output was provided by the textile industry, and in the Udmurt Republic – and in several Siberian cities and towns – by the defence industry. The spatial concentration was facilitated also by corporate organisational means. In the different sectors of innovation-sensitive processing industry huge monopolies had been established and by 1990 some one thousand large company controlled the Soviet manufacturing industry.

3) The autonomous operating conditions of settlements were restricted and the social sphere was heavily influenced by large companies. For example, the city management of Magnitogorsk was exclusively undertaken by the steel-works and that of Togliatti by the automobile factory. Several other examples could be enumerated.

4) The member republics of a formally federal, but essentially unitary, State possessed only restricted economy development powers.

3 The regional portrait of the new Russia

After the dissolution of the Soviet Union in 1991, with the switch to the market economy and with the disintegration of common economic space, the regional differences became much stronger. The effects of economic liberalisation were different in the individual areas of the country. The deep and protracted political crisis made its effect felt in every region of the country, governmental investment (the main source of regional development funds) had been reduced to a minimum and the former close economic relations between member republics had been broken (Artobolevsky, 1993). Industrial production decreased most significantly in the European Central, Southern, and Far East federal districts, whilst the decline of industry in the Siberian and North Russian areas – rich in natural resources – is minor, although still significant. The winners from these changes were exclusively the European centres of Russia. The development of Moscow and Saint Petersburg shows post-industrial features and a considerable proportion of the new market organisations (financial institutions, business service providers and export companies) are located in these two cities. Among the regions of the country, those who found themselves in the most acute situations were those whose economy was dominated by giant corporate concentrations, and narrow specialisation (Table 9).

After the dissolution of the Soviet Empire a considerable regional reorganisation was introduced into the Russian Federation, and during the past fifteen years or so the fundamental directions of changes influencing the country's economic and spatial structure were:

- A new state political position evolved after the collapse of the Soviet Union (the former internal peripheries becoming external peripheries),
- The elimination of the planned economy and the development of new market relations,
- The opening of the Russian economy to external markets,
- A new type of regionalisation in Russia, with the transformation of the economy producing several cross-administrative-border organisations – for instance in the energy sector and in transport,
- The evolution of a new stage of urbanisation, in which urban lifestyle and infrastructure are shaped, no longer directly according to industrial and technological requirements, but according to modern, environmentally friendly factors which better serve improvements to the quality of life and living conditions.

The switch to the market economy most of all affected the various industrial sectors. By the mid 1990's, industrial production was reduced to one-half of its earlier level, although the decline of production varied in the individual regions. The value of industrial production decreased by 50 percent in the North Caucasus,

by 63 percent in the Kaliningrad region and by some 50 percent in the Trans-Urals regions. When examining smaller spatial units (oblasts or provinces) a highly dramatic decrease can be observed. Industrial growth was characteristic of only 17 spatial units. The main driving force of regional differentiation was the transformation of the sectoral structure of industry. The decline was largest in the textile industry, precision engineering and in the chemical and timber industries. These, and the regions with economies based on some routine or undistinguished local industry – firstly, in the peripheral areas inhabited by ethnic minorities – show the worst features of depression. For example, in the multi-national autonomous republics unemployment rates are as high as 30 percent, while the rate of unemployment in raw material-producing areas is only 4–5 percent. When these two types of region are compared, the income of the population shows a 10 to 15-fold difference. In one-third of the county's regions, half of the population lives below the minimum subsistence level. The wages of the economic sectors also show significant differences: the average wages of those working in the fuel industry are three times higher than the national average and double those in light industry.

Table 9

Proportions of the population living in regions with differing development levels, Russia, 1993

Type of region	Population, '000	Percentages
Backward	34,745	23.4
Depressed	35,073	23.7
Stagnating (temporarily)	30,527	20.6
Developed	47,900	32.3
Total	148,245	100.0

Source: The author's calculations based on Bandman, Guzner and Seliverstov, 1996. pp. 211–243.; Bilov and Smirniagin, 1996. pp. 181–183.

The regions which were established during the days of the Tsarist dictatorship and under the logic of the created regions (oblasts) encountered serious problems when faced with the free market. A considerable proportion of Russian public administrative units were unable to meet the competitive conditions set by market requirements. First of all it was those regions which hit difficulties whose operation had earlier been determined by geopolitical factors (the production sites of defence-industry complexes were closed military districts), or whose growth had been influenced by a single, giant company. According to experts' estimates, as the direct consequence of inadequate regional management, the annual loss of GDP amounted to 2–3 percent (*Novikov, 1998*).

Due to the lack of organisation, the market optimisation forces influencing the economy and the spontaneous migration of the population exerted significant pressure on the infrastructural networks in the emerging regions. At the same time huge amounts of infrastructure-related plants lay unused in the ports, and in the large energy hubs: one tenth of Russian power-stations has not been producing for years and several hundred kilometres of pipelines through which, earlier, considerable export activity was realised, remained unutilised. The infrastructure networks of the two emblematic Russian metropolises, Moscow and St Petersburg, could no longer meet the requirements of economic development.

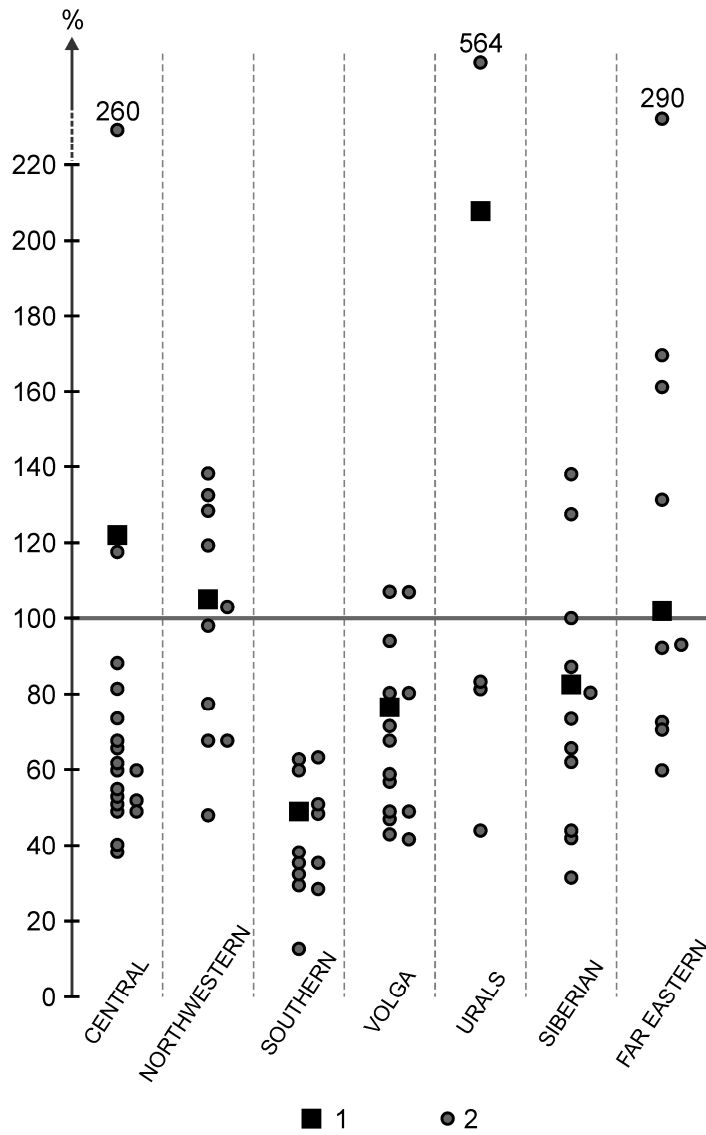
The inherited economic base has also contributed to the fact that Russia today may be regarded as an expressly raw material extracting country, and the raw material extracting regions can be considered as truly competitive on the world market. These regions rank first on the country's investment list and the largest amounts of capital and numbers of qualified labour force flow into them. The major proportion of infrastructural development over the last ten years has been devoted to the road network of these areas; roads were constructed to link mines and quarries with seaports and border-crossings. However, the underdevelopment of a modern urban infrastructure represents a considerable obstacle to future innovative development in these areas.

Nevertheless, the new regional hierarchy does not help strengthen cohesion. The outdated public administrative structure of the country and the rigid regional boundaries hinder the spatial expansion of beneficial economic and social processes. Leading regions are unable to exert pressure on other regions, and the losses due to regional segregation are very significant. For example, due to the lack of cooperation, different regions of Northwestern Russia are developing their ports and road-networks individually.

One of the signs of weak cohesion is the large differences among regional units. Based on gross regional product (GDP) per capita, the difference between the poorest and the richest oblasts (provinces) in Russia was forty-four fold (double that of the income difference between the world's poorest and richest countries). Among the (then) 89 regions, the GDP per capita exceeded the national average in only 16 oblasts (*Figure 2*). Although over the whole country (which was divided into seven macro-regions – the so-called “federal districts”, managed by a Presidential plenipotentiary envoy – the performance of four of these macro-regions exceeded the national average, large variations can be seen among their individual units. The GDP per capita of the Urals federal district, comprising four oblasts, is 208 percent of the national average. This figure is for the Tyumen oblast, the Russian region with the best performance in this federal district, 564 percent in contrast to the other units of the region (whose average is 40–80 percent). In the least developed Southern federal district (which comprises eight regions i.e., republics of national minorities and five oblasts with a Russian population), the average GDP per capita amounts to 49 percent of the national average.

Figure 2

*GDP per capita in the Russian federal districts, 2004,
 Russia = 100*



Key: 1 – Federal district; 2 – Region (oblast).

Source: The author's compilation based on the data of Osnovnye pokazateli sistemy nacional'nyh schotov.

After turn of the millennium regional differences widened still further. In 1994 the GDP per capita of the ten most developed Russian federal regions was 2.50 times that of the national average, while in 2002 it was 3.3 times. In 2004, out of the 89 regions, 10 produced more than half of the country's GDP (*Table 10*).

Table 10

The ten most important Russian federal regions in national GDP terms, 1994–2004

1994		2004	
Subject	Percent	Subject	Percent
Moscow (City)	10.2	Moscow (City)	19.0
Tyumen	6.3	Tyumen	13.0
Sverdlovsk	3.8	Moscow	3.8
Moscow	3.6	Saint Petersburg	3.6
Saint Petersburg	3.2	Tatarstan	2.8
Samara	3.2	Sverdlovsk	2.6
Krasnoyarsk	3.0	Samara	2.5
Nizhniy Novgorod	2.8	Krasnoyarsk	2.3
Bashkiria	2.7	Krasnodar	2.2
Chelyabinsk	2.7	Bashkiria	2.1
Total	41.5	Total	53.9

Source: Konceptsiia strategii social'no-ekonomicheskogo razvitiia regionov Rossiiskoi Federacii. p. 5.

The majority of regional units show weak competitiveness on the global markets, and the lack of success of Soviet regional development is shown by the fact that not even a single modern, regional productive cluster has been established: monoculture is characteristic of one quarter of the Russian regions. Productive relations do not manifest themselves in networks, but large vertically organised companies manage economic co-operation. 60 percent of the output of the timber industry in the (long industrialised) Tver region, which has a relatively diversified economic structure is produced by four large companies, and 44 percent of the production of the engineering industry is produced by three large companies. Mono-functional cities are located in the Central, Urals and Siberian federal districts in the greatest numbers. They account for 61 percent of urban settlements and, as the population of four-fifths of these settlements exceeds 50 thousand, their share of the city network is considerable. In the mono-functional cities of the Sverdlovsk region there live 50 million inhabitants (42 percent of the region's urban population); the situation is more unfavourable in the Volgograd, Tyumen and Archangelsk areas, since, in these, more than half of the urban population live in

cities which are maintained by a single industrial sector. According to this indicator, Siberia's position is no better either, since 41.0 percent of the urban population here is concentrated in such cities. (Table 11). First and foremost this city-network feature explains why the majority of Russian investment and infrastructural projects flows into the extraction industries and into the large companies, since, in these terms, sectors which are competitive on the international markets carry insignificant weight.

Table 11

Regions with a large number of mono-functional cities, 2004

Region, republic	Number of cities	Number of mono-functional cities	Proportion of population living in mono-functional cities, percent
Chukotka	3	3	100
Khakassia	5	4	80
Karelia	13	10	77
Ivanovo	16	12	73
Sverdlovsk	47	33	70
Kemerovo	20	14	70
Nizhniy Novgorod	23	17	68

Source: Konceptsiya strategii social'no-ekonomicheskogo razvitiia regionov Rossiiskoi Federacii. p. 9.

4 Regional social problems

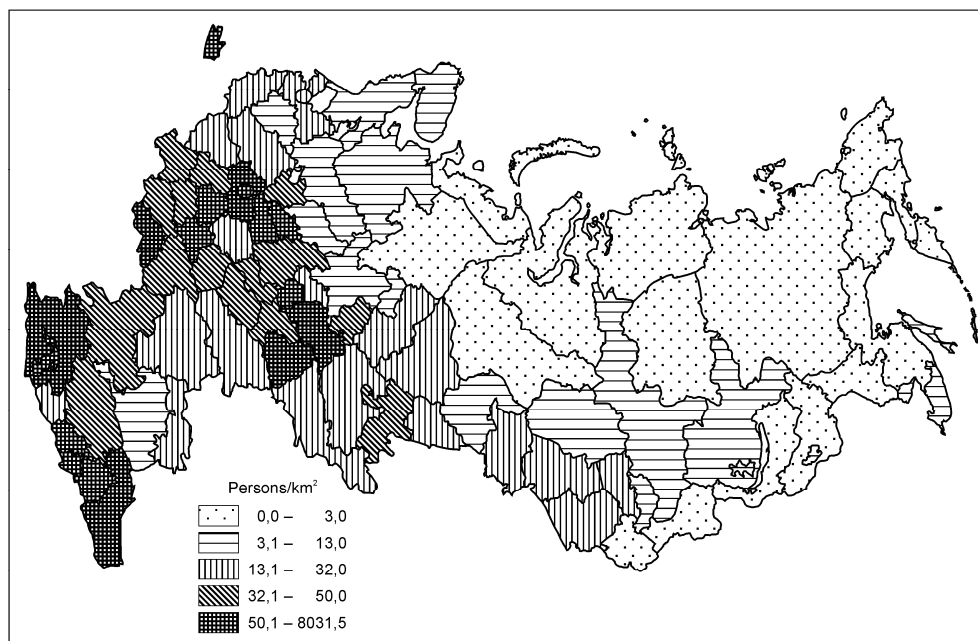
Sharp demographic and social inequalities are characteristic of Russia's current spatial structure. In the first place the unequal spatial distribution of the population may be considered as the greatest. The Central-Western and Southwestern regions can be deemed the demographic gravity zones of the country, totalling one quarter of the country's area, but three-quarters of its population. All of this is reflected in the extreme differences of the indicators of population density (Figure 3).

As a consequence of forced industrialisation, a large proportion of Russian settlements are unable to reproduce their population in any regular manner. The agglomerations of the large cities show long-term stagnation in respect of demography and migration. Among the 13 largest Russian cities with populations of more than one million, only the populations of Moscow, Rostov-on-Don and of Volgograd have continuously increased. For example, Perm, which earlier had one million inhabitants, no longer features in this category. The population of Russian cities decreased between 1991 and 2002 by more than 4.5 million (3.9 percent). On the basis of industry-based urbanisation, new types of population-reproducing phenomena became general, with both the birth-rate and the mortality-rate decreasing.

Over most of the country the natural increase steadily dropped, and, while in 1990 this could be seen only in the ageing Central and Northwestern regions, by 2003 it was characteristic of 73 spatial units (oblasts) of the country. The only exceptions to this phenomenon are the eastern and southern peripheries where high birth rates are still common today. The country has several regions where, during the last 15 years, settlement populations decreased by one-third, and it is the first time in the country's history that the village has lost its self-reproductive capacity.

Figure 3

Population density indicators of the Russian federal regions, 2002, persons/km²



Source: Bradshaw and Palacin, 2004. p. 22.

If we assume the indefinite continuation of current natural increase rates, Russia's population loss by 2050 may reach 1.8 percent per annum, whilst the proportion of the population of pensioner age may grow from the 20 percent of 2002 to 34 percent. In the meantime, the ageing population staying in work will also decrease. By 2010 the number of those on the labour market is expected to be 3.6 million lower, and this number will decrease by a further 7 million by 2015. The dramatic decrease of the country's population and the migration tendencies also involve risks in geopolitical terms. In Siberia and the Far East a demographic vacuum may develop, and this may be an opportunity for mass immigration from the surround-

ing countries, a development which would be clearly inconsistent with the economic and political interests of Russia.

Beyond the one-sided nature of the migration processes – the adverse situation evolving due to a significant decrease in the number of immigrants and to a steady increase in the number of emigrants – the low rate of mobility of the population also hinders regional development. There are several regions in the country whose development is handicapped by serious shortages of labour, and, according to predictions, from 2006 these areas may show an increase in their shortage of labour over a five-year period from 0.25 percent to 1.20 percent. However, to maintain a 7 percent growth rate of GDP would also require the same growth rate in the working age population. These problems could be remedied with an increase in population mobility, but mobility is currently impeded by several factors:

- The bureaucratic infrastructure for registering labour and residence has not yet been set up. People do not find homes in the places where jobs are to be found and cannot find jobs where they live;
- Financial resources for public utility services needed to retain their population are lacking in the regions;
- High travel costs deter commuting by workers.

The commuting habits of the inhabitants of Russia today differ little from the features of early industrialisation. The poor level of mobility can be explained by the low qualification level of much of the workforce. The education system has not yet adjusted to market conditions. Institutions of vocational training were established under the old Soviet system, and significant changes have not yet been implemented. Even in those areas which are still growing strongly, the labour market shows a one-sided picture: in respect of technical activities there is a significant lack of a skilled workforce, while in many branches of the humanities considerable over-education is evident. Effective working relationships between education and the economy have not been established.

As a consequence of spontaneous spatial development, Russian society shows a very diverse picture. According to sociology surveys, 3 percent of the population can be regarded as wealthy (even as millionaires), 20 percent belong to the middle-class, 70 percent can be included in temporary groups, whose members may sometimes climb a rung of the social ladder, but often slip back. Among the latter, 30 percent can be considered definitively poor and 10 percent live in extreme poverty. The social division of Russian society hinders social reform, exerts an adverse effect on the growth of the internal market, and the current consumption level is an obstacle to a more rapid economic growth. Due to the low income levels of the population as a whole, it is impossible to introduce modern forms of financing, one cannot count on any contribution to development from the population and the workings of civil organisations are slow and protracted (Consultations With the Poor... Russia; *Sharpe*, 2007).

After the change of regime, radical changes took place in the relationships of ethnic groups living in the country. Earlier, relations with ethnic minorities had a favourable influence on the cultural development of the multi-national empire. In fact, the Russian proportion of the population of the old Soviet Union was 55 percent, while the Russian population of today's Russian Federation is 82 percent (*Table 12*). Regional educational and cultural institutions of the different ethnic groups were closed down, the evolving ethnic enclaves and a lack of the institutions needed for ethnic communities to exist has led to ethnic seclusion over the regions of the country. The mobility rate of ethnic minorities is also somewhat low. Social problems in the ethnic regions tend to accumulate, economic growth is low and the unemployment rate is high. Social stagnation incites conflict and in many cases central government needs to deploy the military to maintain order in these regions.

Table 12

Proportion of ethnic minorities in the Russian population, 2002

Ethnic group	People, '000s	Percent	Percentage of 1989
Russian	115,869	79.8	96.7
Tatar	5,558	3.8	100.7
Ukrainian	2,944	2.0	67.5
Bashkir	1,674	1.2	124.3
Chuvash	1,637	1.1	92.3
Chechen	1,361	0.9	151.3
Armenian	1,130	0.8	212.3
Mordvinian	845	0.6	78.7
Belarus	816	0.6	67.5
Avar	757	0.5	139.2
Kazakh	655	0.4	103.0
Udmurt	637	0.4	89.1
Azerbaijan	622	0.4	185.0
Mari	605	0.4	94.0
German	597	0.4	70.9
Kabard	520	0.3	134.7
Ossetic	505	0.3	128.0
Dagestan	510	0.3	144.4
Buriat	445	0.3	106.7
Yakut	444	0.3	116.8
Kumi	423	0.3	152.4
Ingush	412	0.3	191.5
Lesg	412	0.3	160.0
Total	145,164	100.0	98.7

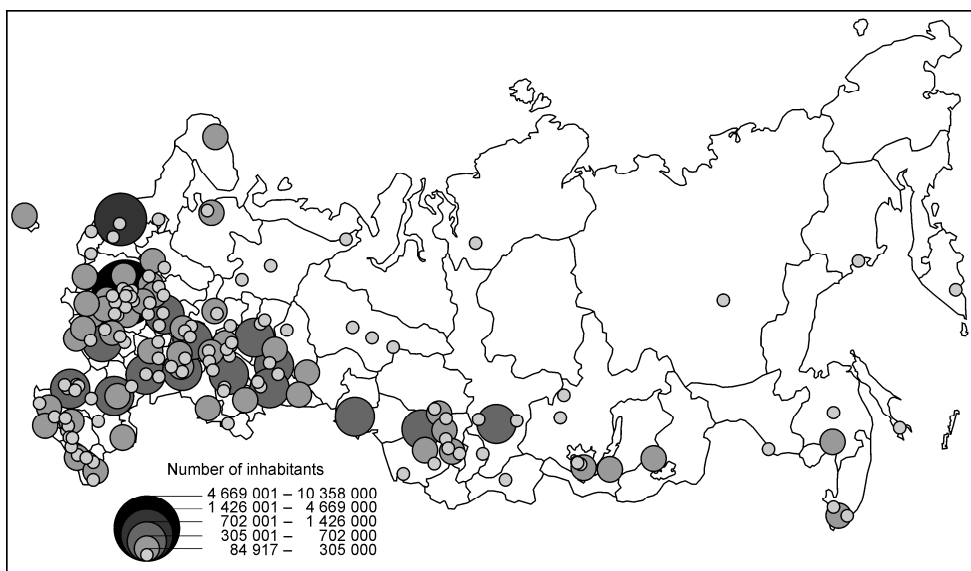
Source: Konceptsiya strategii social'no-ekonomicheskogo razvitiia regionov Rossiiskoi Federacii. p. 21.

5 The Russian settlement structure

The clear beneficiaries of forced industrialisation and political ideology were, for many decades, the cities. The urbanisation level of the country can be regarded as outstanding even in international terms with 73 percent of the population living in *cities*. The urban population reached its peak in 1990 when the population of Russian cities reached 108.9 million. A steady reduction, however, produced a decline to 104.7 million by 2005. It is quite understandable that, in the more thinly inhabited areas, city networks are also rare (*Figure 4*).

Figure 4

Spatial distribution of Russia's larger cities, 2002



Source: Bradshaw and Palacin, 2004. p. 54.

In Russia at the beginning of the 21st century, there were 1,097 cities registered as such. This means that the number of cities had doubled and that the urban population had septupled over one hundred years. In 2001 the population of 15 percent of these cities (specifically, 163) exceeded 100 thousand. There were 11 cities with more than one million inhabitants, 23 with 500 thousand to one million and 57 with 200–500 thousand inhabitants. Most of the remaining 900 or so small- and medium-sized cities are located in European areas.

Elements of the Russian city network established in the Soviet era – more than half of them – appeared very weak during the period of the change of regime. The ability of companies in set up towns and cities collapsed. Companies previously

producing almost exclusively for the internal market took part in running cities – and with considerable funds. As a result of the change to a market economy, thousands of companies were closed, and military orders also dropped significantly. (Military establishments had a prominent position in every fifth city in Russia.)

However, the two groups of the Soviet-type city network, the capitals (Moscow and Saint Petersburg) and the *administrative centres of the regions* (regional capitals) were the absolute winners in the change process. There are significant differences between the two federal cities. The 21 percent of the Russian is produced in Moscow, while Saint Petersburg which has a half of the population of the federal capital city, produces less than 4.0 percent of the GDP only. Moscow is a typical post-industrial metropolis. 84 percent of its GDP comes from the services (in Saint Petersburg 63 percent, respectively (Zubarevich, 2006).

The regional centres are, in general, the largest cities of their federal subject or region and their share of the population of their territory is large. The city of Novosibirsk provides 53 percent of the population of its region (oblast), Tomsk 47 percent and Kaliningrad 45 percent of their eponymous oblasts and Izhevsk 40 percent (of the Udmurt Republic). Forty to seventy percent of a region's GDP is produced in the centres of the public administration units; almost every economic indicator exceeds the regions' averages by 10–30 percent. Likewise, these regional seats spend the major part of the budget of their region: Yekaterinburg 50 percent, Perm 60 percent and Chelyabinsk 75 percent. Inhabitants of the regional capitals spend, on the average, 42 percent more on market services and consumer goods, and build significantly more apartments. In the city of Yaroslavl, for instance, each inhabitant purchased 65 percent more in the way of services and consumer goods in 2004 than those living in the Yaroslavl oblast (i.e., the federal subject) (Leksin, 2006). 90 percent of undergraduates study and 80 percent of scientific researchers work in these cities. These centres are the clear beneficiaries of the post-Soviet transformation: 95 percent of privatised state assets are to be found in these cities, and the expansion of the banking system and international relations also helped to enrich the interest groups living here. The middle-classes of these regional centres and “Oil Cities” comprising ca. 2.50 million people enjoy 90 percent of the annual income (50 billion dollars) of this social stratum.

Russia is the archetypal example of the fact that *contradictions may arise between the degree of urbanisation and the extent of urbanisation*. The Soviet Public Administration Law set the administrative requirements for the promotion of a town to quantitative requirements relating, primarily to the size of population, although the circular infrastructure and institutions of urban lifestyle were almost totally absent from the Russian small- and medium- towns. Following the change of regime there began a transformation of Russian cities. Changes are traceable both in the number of cities and in the numbers of the urban population. The number of urban settlements actually decreased in Russia, and the reason for this unusual phenomenon is that, during the temporary period of crisis, many agricultural

towns applied to be downgraded to village or settlement level to enable its inhabitants to pay lower public utility charges and to be able to take up allowances related to agricultural production. Due to the collapse of large city economies, large cities (those with over 500 thousand inhabitants) by the mid-90s had lost 2.6 million inhabitants, while the population of cities with fewer than 100 thousand inhabitants increased by 1.6 million. A majority of cities in this latter category are located in the southern, poorly urbanised, regions and in the territories of ethnic minorities, but it is a general rule that the growth of cities in the emerging regions has increased steadily, while in depressed areas the crises primarily occurred in cities.

A reorganisation of *the industrial performance* of Russia's larger cities also took place. Significant changes can be read in *Table 13* illustrating changes in the order of the fifteen Russian cities with the largest economic capacity. Moscow and Saint Petersburg have maintained their positions during the past 25 years, while the home of the textile industry – the Russian Manchester – Ivanovo, together with the important engineering centres of Yekaterinburg and Rostov rank lower, and Nizhniy Novgorod slipped back from third/fourth place to eleventh. Chelyabinsk, Ufa and Samara (all with a diversified economic structure) were able to retain their positions. The spectacular advance made by Togliatti, a city with an innovative industrial structure (automotive and petrochemical industries) should be an example for Russian city development. The cities included in this ranking in 1970 produced 28 percent, and in 1996 20 percent of Russia's industrial output.

The dominance of some regional centres of public administration which, earlier, had had leading positions in the Russian network of large cities, came to an end, and new competitors appeared in the regions. The development of the regional city-competition is at the same time proof that the picture which still exists of a strongly centralised Russia may slowly change.

The rural population of 39 million people (23 percent of the country's population) lives in 155 thousand settlements, but the size of these rural settlements is very small with an average population of 249. The population of 95 percent of all villages is below 1,000. However, the proportion of the population living in these small villages was, in 2002, only 52 percent of the rural population (*Table 14*).

The spatial arrangement of the village network is also uneven. There are large differences in the density and size of rural settlements. A settlement network with small villages is typical of the Northwestern and Central federal districts and for those along the Volga; in these large regions the population of less than 50 percent of the villages is over 100 people (*Table 15*). According to the census returns for 2002, the population of only 0.1 percent of villages exceeds 5 thousand. Three-quarters of the villages categorised as large or very large (631 villages) are situated in the Southern and Siberian federal districts and along the Volga. The population living in large villages amounts to 16 percent of the total village population. This is highest in the Southern federal district at 23 percent (Vserossiyskaya perepis' naseleniya 2002 goda).

Table 13
Cities providing the largest industrial output, 1970–1996

Name	Position in ranking order		Share of Russian industrial output, percent	
	1996	1970	1996	1970
Moscow	1	1	5.80	8.50
Saint Petersburg	2	2	2.50	5.00
Togliatti	3	64	1.90	0.30
Chelyabinsk	4	3	1.50	1.50
Omsk	5	7	1.30	1.10
Novokuzneck	6	9	1.20	1.00
Lipeck	7	30	1.20	0.50
Samara	8	6	1.10	1.20
Ufa	9	10	1.10	1.00
Cherepovec	10	26	1.10	0.60
Nizhniy Novgorod	11	4	1.00	1.50
Surgut	12	–	0.90	–
Norilsk	13	32	0.90	0.50
Krasnoyarsk	14	8	0.90	1.10
Magnitogorsk	15	18	0.80	0.90
Perm	17	12	0.70	1.00
Yaroslavl	18	11	0.70	1.00
Kazan	23	15	0.60	1.00
Yekaterinburg	24	–	0.60	–
Novosibirsk	26	16	0.60	0.90
Rostov-on-Don	45	17	0.30	0.90
Cheboksary	51	14	0.20	0.90
Ivanovo	52	17	0.20	1.00

Source: Treivish, Brade and Nefedova, 1999. p. 278.

Table 14

Main data of the Russian village network, 1989–2002

Description	Number of villages		Population, '000s		1989 population = 100	Population distribution, percent	
	1989	2002	1989	2002		1989	2002
Number of unpopulated villages	9,309	13,087	–	–	–	–	–
Number of inhabited villages	152,922	142,201	39,063	38,737	99.2	100.0	100.0
Of which							
below 10 persons	30,170	34,000	155	168	108.9	0.4	0.4
11 – 50 persons	44,674	38,070	1,150	950	82.6	2.9	2.5
51 – 100 persons	18,094	14,903	1,312	1,082	82.5	3.4	2.8
101 – 500 persons	40,072	36,315	9,710	8,922	91.9	24.9	23.0
501 – 1000 persons	11,524	10,832	8,087	7,570	93.6	20.7	19.6
1001 – 3000 persons	6,984	6,409	10,819	10,009	92.5	27.7	25.8
Over 3001 persons	1,404	1,672	7,830	10,036	128.2	20.0	25.8
Total	162,231	155,288	39,063	38,737	992.0	100.0	100.0

Source: Zolin, 2006. p. 80.

Table 15

Distribution of population in the villages according to size, 2002, percent

Federal district	Proportion of villages				
	unpopulated	below 10	11–50	51–100	above 100
Central	10.00	28.40	30.50	9.30	21.80
North-Western	13.40	36.80	29.40	6.80	13.60
Southern	2.30	2.90	8.20	8.80	77.80
Volga	5.90	14.60	20.40	12.20	46.90
Urals	3.80	7.30	13.10	10.90	64.90
Siberian	2.20	6.00	10.60	9.90	71.30
Far-Eastern	5.90	6.90	9.00	8.30	69.90
Total	8.40	22.70	24.00	9.40	35.50

Source: Zolin, 2006. pp. 81.

6 Deficiencies in regional development policy

6.1 The slow process of institutionalisation of regional policy

Following the change of regime, almost all the elements of Soviet-type regional development collapsed. The largest loser in the economic disintegration was the Russian Federation which had earlier clearly profited from artificial integration. Disintegration also strongly influenced the regional position of the Russian economy and can be characterised by:

- Increase of transport costs, devaluation of product structures, decline of consumption, and, as a consequence of the possibilities for establishing newly directed economic relations, the interregional exchange of commodities significantly changed. The degree of contraction in interregional product turnover exceeds that of the decrease in production;
- Regional budgets collapsed and the steady resources gap and increasing debt stock stepped up the conflicts between central government and the regions;
- Maximising increases in income resulted in unrestrained exploitation; the economic separatism of regions became general;
- Due to increasing transportation costs, the interregional flow of labour dropped to a minimum level.

After the downfall of communism, divergent processes crept into the economic and political fields as well in the Russian state which was declared as unitary. Among political factors, the central government and the division of power between the regions played a significant role. In principle, the new Russian Constitution regulated power relations and eliminated most of the regulations which discriminated against the regions. However, the economic crisis of 1998 made it clear that economic collapse could not be prevented solely by political means, and integration organised on a market basis must be supported by means of economic policy. From that point onwards we may talk about the re-evaluation of regional economic policy. The concept of regional policy first appeared in the Russian governmental documents in 1992. In that year *Boris Yeltsin* addressed a regional political presidential message to the State Duma (the Russian Parliament). Regional political committees had been established in the Lower and Upper Houses, and the political parties had also included the problems of regional development in their programmes. In 1996 President Yeltsin issued a decree concerning “The main directions of regional policy in the Russian Federation”. The presidential document considered the goals, means and institutions of regional policy. Its key elements were:

- The economic, social, legal and organisational principles of the federation must be elaborated;

- Starting from the constitutional regulation, the basic requirements of social security must be defined independent of the type of development potential which an individual regions may have;
- The principle of equal opportunity must be established in all regions of the country;
- Regional environmental programmes must be prepared;
- Serious attention must be paid to the development of strategic regions;
- The climatic and natural endowments of regions must be fully exploited;
- Guarantees must be in place for the operation of local government.

This series of duties did not differ much from the regional politic goals of the Soviet regime, but it can still be considered a major success as the prelude to modern regional policy in Russia. The document gave rise to wide-ranging debate and the dialogue initiating the improvement of Russian public administration also originated primarily within political and professional circles.

In order to finance regional political duties the State Duma established a fund to subsidise federal regional units, the source of which was 15 percent of the tax income calculated net of customs and import duties. The primary aim of the fund was to subsidise regions struggling with acute problems; although almost every region obtained assistance. Of the 89 regions (oblasts), no fewer than 81 benefited from these funds, the majority of which were spent on solving budgetary problems.

This attempt to establish stability for operating regional development institutions failed. In the central institution of Russian economic policy, the Presidential Executive Office, a regional policy unit had not been established, and initially the Ministry of Economy was in charge of regional policy. Basically, however, its duties did not extend beyond preparing the government's annual report. In the middle of the 1990s, a new central organisation (the Ministry of National Problems and Federal Relations) s charged with responsibility for regional policy, and in 2000 an independent Ministry of Regional Policy was set up. In the first phase of Russian regional policy – according to the unanimous opinion of experts – there were only formal results to be reported. However, the concept of policy has taken root and its institution has appeared on the scene in the area of central public administration, although to date factual results can be seen only in the elaboration of some regional programmes (*Artobolevsky, 2000*).

The stabilisation of the state budget and accelerating economic growth have enabled the government – from the end of the 1990s – to spend more on reducing regional differences. However, the experiences of the past five years or so have made it clear that the government's regional measures are not effective, and the measures applied have exhausted all of its (initially promising) potential. In the application of regional policy the Russian government faced new challenges. While earlier, during the era of primary industrialisation, it aimed to reduce regional differences by establishing industries which required a large workforce and which

concentrated on producing standardised mass products, the new policy, although with the same targets, had to employ strategies to open new markets and enlarge the domestic market. The “levelling” subsidies granted from the budget to backward regions in respect of their adaptation to market conditions clearly reduced the effectiveness of the national economy, since, even though the purpose was redistribution, these subsidies took considerable resources away from the leading regions. The mechanism also put the developed regions into a difficult position, in that they were not able to adapt to international market competition. “Levelling” as a regional policy objective became an obstacle to stimulating the regional expansion of innovation, and also to meeting the requirements of competitiveness. Leading regions could only utilise their development motivation in a very limited way, and in the subsidised regions the feeling of dependency harmed public morale.

The proposed package of regional policy measures was also poor, and a major proportion of those applied consisted of governmental transfers and objective programmes. Modern regional policy measures appeared only slowly in state policy – and to a limited degree. The reform of public administration and the reorganisation of the budget made their effect felt only at macro-level. The meso-level remained unchanged since conditions for regional development had not been established.

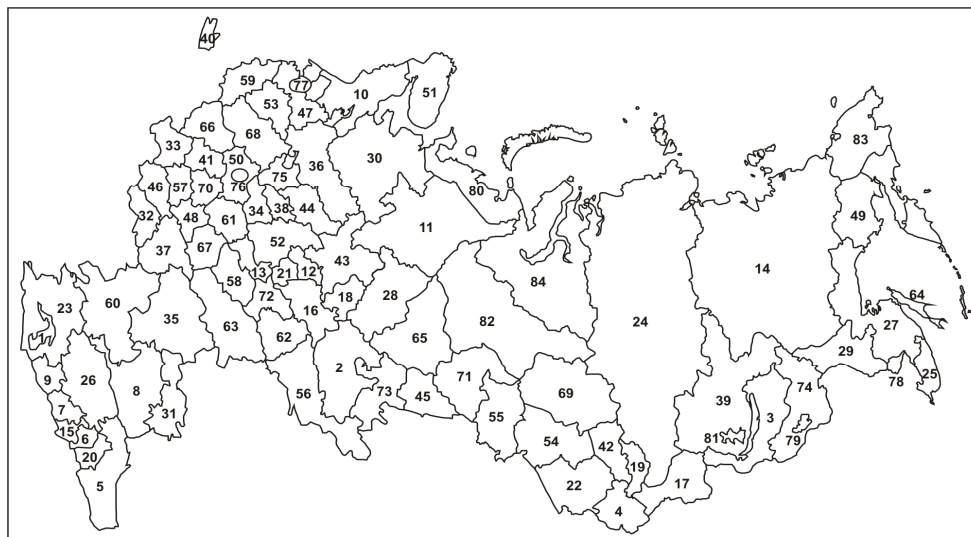
No comprehensive analysis in respect of the regional situation had been elaborated and different forms of development had not been drawn up. No information was available on regional features. Due to such deficiencies, it was simply impossible to apply differentiated regional policy. The planning system of the units of regional public administration is underdeveloped, with settlement- and regional planning not in harmony. The concept of interregional cooperation is almost unknown in Russia and there are no valid principles and rules for utilising budgetary resources. The country does not have a regional development strategy, and so the government’s concepts and decisions cannot include any concrete and regionally differentiated concepts regarding the suppression of poverty, the increase of GDP, the modernisation of industrial regions in decline and a homogeneous country. Measures influencing the development of individual regions fall exclusively within the new regional organisation of the country do not appear in legislation and budgetary planning. The national settlement network development concept, adopted in 1994, is not taken into account neither by local authorities nor by business.

6.2 Outdated territorial-administrative structure

The regional public administration of the country is outdated. Today Russia is divided into 83 regional public administrative units, including 21 republics, 7 border territories (krais), 46 provinces (oblasts), 1 autonomous region, 6 autonomous districts and 2 federal cities (*Figure 5*). In 1917 there were, on the territory of Russia

Figure 5

Regional administrative units of Russia, 2007



Republics: 1. Adygeya; 2. Bashkiria; 3. Buryatiya; 4. Altay Republic; 5. Dagestan; 6. Ingushetiya; 7. Kabardino-Balkariya; 8. Kalmykiya; 9. Karachay-Cherkessiya ; 10. Karelia; 11. Komi; 12. Mari El (Mari); 13. Mordoviya; 14. Yakut (Saha); 15. North-Ossetia (Alaniya); 16. Tatarstan; 17. Tyva Republic; 18. Udmurtiia; 19. Hakasiya; 20. Chechnya; 21. Chuvashiya. *Borderlands (krajs):* 22. Altay; 23. Krasnodar; 24. Krasnoyarsk; 25. Primorye; 26. Stavropol; 27. Khabarovsk; 28. Perm. *Regions (oblasts):* 29. Amur; 30. Arkhangelsk; 31. Astrakhan; 32. Belgorod; 33. Bryansk; 34. Vladimir; 35. Volgograd; 36. Vologda; 37. Voronezh; 38. Ivanovo; 39. Irkutsk; 40. Kaliningrad; 41. Kaluga; 42. Kemerovo; 43. Kirov; 44. Kostroma; 45. Kurgan; 46. Kursk; 47. Leningrad; 48. Lipetsk; 49. Magadan; 50. Moscow oblast; 51. Murmansk; 52. Nizhniy Novgorod; 53. Novgorod; 54. Novosibirsk; 55. Omsk; 56. Orenburg; 57. Oryol; 58. Penza; 59. Pskov; 60. Rostov; 61. Ryazan; 62. Samara; 63. Saratov; 64. Sakhalin; 65. Sverdlovsk; 66. Smolensk; 67. Tambov; 68. Tver; 69. Tomsk; 70. Tula; 71. Tyumen; 72. Ulyanovsk; 73. Chelyabinsk; 74. Chita; 75. Yaroslavl. *Federal cities:* 76. Moscow; 77. Saint Petersburg. *Autonomous region:* 78. Jewish (Birobidzhan). *Autonomous districts:* 79. Buryatiya; 80. Nenets; 81. Ust-Orda Buryat; 82. Hant-Mans; 83. Chukchi; 84. Yamal-Nenets.

as it is today, 56 regions (gubernia). By 1950 this had changed to 84 regional administrative units. During the last half-century the number at meso-level (disregarding new and abolished units) remained unchanged. The sizes of the regional administrative units show considerable differences. The 22 larger oblasts – those with more than 2 million inhabitants – comprise 25 percent of the number of administrative units, while 56 percent of the country's population live there. The administrative borders hamper new forms of development and they fail to meet the requirements for economies of scale. The legal regulation of regions does not comply with international standards, and the country has hardly ratified a single docu-

ment on European regional cooperation. A review of “regions” is under way in the spirit of the reform of Russian public administration, and to date a few have been merged, with further mergers expected. Each region (federal subject) has its own government, ministries and budget, and, if necessary, subsidies can be granted from the central budget.

In 2000 seven *federal districts* were established by Presidential Decree. Each of these “super regions” embraces a number of existing regional administrative units, and, according to the presidential concept, the new seats of the districts became the regional centres of the subordinated regions (*Figure 6, Tables 16–17*). The duties of the Presidential Procurators appointed as the leaders of the districts involve ensuring that the regional leaders of the district observe Federal laws and budgetary policies, elaborating new social and economic programmes and gathering statistical data for the central administration.

President *Putin* hoped that the new districts would boost the regions’ political and economic relations to Moscow, and that the effectiveness of public administration would improve. Instead of holding governorship elections in the regions of Russia, the regional leaders were appointed by the central administration in 2004 (although the decision had first of all to be approved by the local parliaments); it was a measure aiming at centralisation. Both the Russian opposition and foreign political circles strongly criticised the curtailment of regional autonomy and the democratic changes of the 1990s in such a manner (*Lynn and Kuzes, 2002, 2003; Petrov, 2002*).

Figure 6

Federal districts of Russia

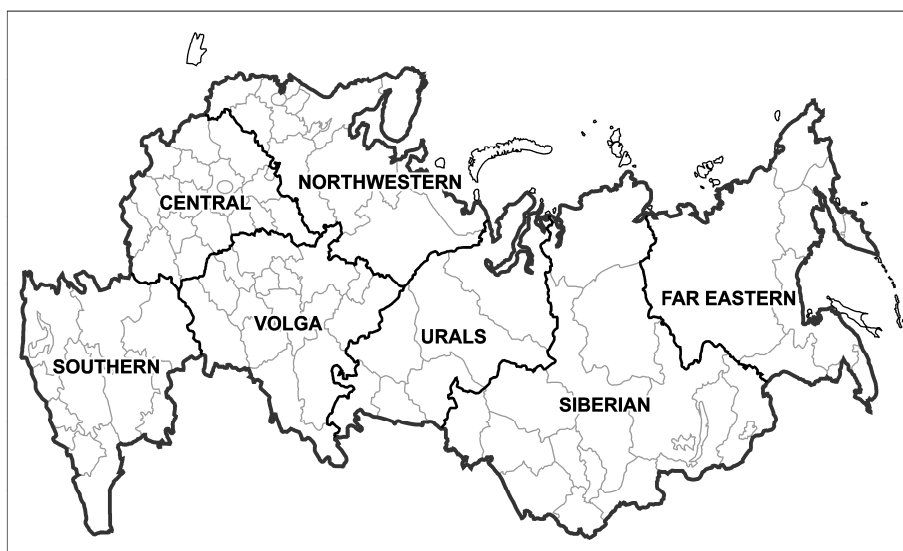


Table 16

Main data of federal districts, 2005

Description	Area, '000 km ²	Population, millions	Main town	Population of main town, '000s	Urbanisation level, percent	Employed in industry, percent
Central	650.70	36.50	Moscow	10,383	79.10	21.20
Southern	589.20	21.50	Rostov	1,068	57.30	18.10
North-western	1,677.90	14.30	Saint Petersburg	4,661	81.90	23.30
Far Eastern	6,215.90	7.10	Khabarovsk	583	76.00	20.20
Siberian	5,114.80	20.50	Novosibirsk	1,426	70.40	22.40
Urals	1,788.90	12.50	Yekaterinburg	1,294	80.20	25.60
Volga	1,038.00	31.60	Nizhniy Novgorod	1,311	70.80	25.60

Source: According to the data of www.gks.ru [15 March, 2008] the author's compilation.

Table 17

Sectoral structure of GDP in the federal districts, 2004, percent

Federal district	GDP per capita, thousand roubles	Agriculture	Industry	Services
Central	121.86	3.2	18.3	78.5
Southern	50.01	15.6	18.	65.9
North-Western	107.06	2.5	36.2	61.3
Far Eastern	103.50	4.0	31.3	64.7
Siberian	85.35	17.1	35.1	57.8
Urals	212.56	2.0	47.7	50.3
Volga	78.43	8.1	37.2	54.7
Total	102.01	5.1	31.2	63.7

Source: Osnovnye pokazateli sistemy natsional'nyh schotov.

According to the logic of centralisation, decentralisation only promoted the break-up of the federation and supported the measures taken in favour of regional separatism – something which, in the case of Chechnya, arose in its worst possible form. According to leading Russian opinion, the self-interest of corrupt local elites replaced those alleged fundamental principles of autonomy which, in the Soviet era, had led to the establishment of the federal state of Russia. The governing political forces were filled with increasing frustration at the worsening of regional problems and inequalities and their own incapacity to retain the key elements of the federation under their control. The Kremlin, therefore, became convinced that it is fundamentally necessary to restore Moscow's firm power over Russia's regions in

order to preserve national homogeneity and to protect the public against the dual dangers of separatism and terrorism. The Russian president made clear that his objective is to have the governors report to the president, to make them serve the Russian state and not the local mafias. The officially formulated goal of the centralising reforms is to eliminate thoroughly the wide-ranging and lavish corruption and manipulation which, by influencing local elections and politics, committed regional leaders to local interest groups rather than to Moscow, and, finally, to make local leaders personally responsible for the completion of developments implemented in their respective regions (*Leksin, 2005*).

Administrative reforms have their internal logic, and it seems that these changes – by explicitly and deliberately eliminating local participation in decision-making through election – will inevitably reduce Moscow’s ability to govern the country effectively in the future. The changes raise the question as to whether Russia will continue to be considered as a Federal state when power is divided between the centre and the regions. It seems likely that it will not. In addition, the administrative reforms will very likely enhance the political tensions in such republics as Tatarstan, where the dangers involved in the independence movements at the beginning of the 1990s could be averted by transferring certain areas of economic and political sovereignty from Moscow to Kazan. Basically, the reaction against considering Russia as a multi-ethnic/multi-territory state has begun. Ethnic territories, such as Tatarstan and the republics of the North Caucasus are downgraded to “regions”. The autonomy of Tatarstan, which was outlined in a revolutionary treaty concluded with Moscow in February 2004, has been considerably curtailed since Putin came into power in 2000. Moscow no longer concludes similar power-sharing treaties with other regions, and it has also begun to restrict the validity of those treaties already in existence. The Russian Ministry of Nationalities (which was basically removed from the Ministerial system was reorganised in March 2004 as the Ministry of Regional Policy). In the course of the debate in Moscow on the appointment of regional governors, new suggestions were made with respect to limiting the authority of regional parliaments, to the direct appointment of mayors, and even to the total elimination of autonomous republics and regions, effectively demanding the return, albeit in an altered form, of the Tsarist provincial system (*Shvetsov, 2006*).

The concept of a “bottom-up” approach to federal organisation, most visibly supported by Tatarstan and its president, *Mintimer Sajmijev*, and which urged an even division of political power between the centre and regions, was rejected by Moscow, leaving no doubt that the Federal order, if it is to be retained at all, will be created on a “top-down” basis. It will not be based on mutual agreement between the centre and the regions, but on what Moscow considers to be right to authorise the regions with (*Vardomskiy, 2006*).

7 Fundamentals of the new regional development strategy

The Ministry of Regional Development completed the country's regional development strategy in 2005 (Kontsepciya strategii social'no-ekonomicheskogo razvitiya...). The eight-chapter document gives a general survey of the regional differences of the country, and it outlines the requirements of regional policy. The document defines the basic principles of modern regional policy in the following terms:

- 1) *Multi-pole development policy*. Measures aiming to diminish regional differences must be developed according to the features of the individual regions. Development resources must be concentrated and directed to poles which are able to initiate and maintain innovation processes. As the modernisation of the country has just begun, innovative measures should be directed towards growth centres. In order to realise this policy, pilot regions should be delineated (*Table 18*);

Table 18

Elements of polarised regional development

State policy	Decreasing regional differences	Polarised regional development
Fundamental goal	Determination of intervention region in different parts of the country	Delimitation of growth areas
Regional administration	Determining regionally compact units adjusted to administrative boundaries	Establishing the legal regulation of the pilot regions
Regulatory responsibility	Proportionate allocation of resources among the subsidised regions	Allocating State resources to the development of the innovation potential of the pilot regions, to stimulate connection to the global economy

Source: Konceptsiya strategii social'no-ekonomicheskogo razvitiya regionov Rossiyszkoy Federacii. p. 25.

- 2) *Complexity*. In the interest of implementing the principle of equal opportunities set out in the constitution, and of realising national cohesion goals, budgetary assets should be redistributed to those regions which had been overlooked in the realisation of current programmes. Backward regions falling outside of the range of prioritised growth poles must not be ignored. Development concepts must also be prepared for backward regions. The

duty of central federal bodies is to determine the regional development sources in a differentiated manner which takes into account all of the options which best serve reform;

- 3) *Complementary effectiveness, synergy*. Regional policy goals must be determined in close harmony with other reforms in progress in the country. In allocating regional development funds, the cooperation of the regions must be considered and individual forms of subsidy need to be reconciled;
- 4) *Differentiation of regional policy*. Russia's move towards global integration affects the individual regions of the country in different ways. There are considerable differences in development potential and in the situation of individual regions. Diversified and differentiated measures will be necessary in the different types of region (*Table 19*);
- 5) *Subsidiarity*. Local organisations must be given a great degree of independence in the social and economic development of regions. The most comprehensive means of this is the decentralisation of power.

The draft of the regional concept indicates that the modernisation of the country and an increase in GDP can be achieved by improving the activity of the regions. It defines the goals of central (federal) level regional policy as follows:

- To improve the living conditions of the population living in the territory of Russia.
- To establish conditions for stable, high quality economic development.
- To strengthen the competitiveness of Russia and of its regions on the international market.

The draft lays down the goals for regional policy as:

- 1) *Establishing the competitiveness of Russia and its regions*. By considering aspects of the market economy it shall enable the achievement of economic growth resources through the concerted development of the economy and settlement network. Comprehensive infrastructural development programmes shall be initiated. Internationally competitive production clusters shall be organised in the innovation-intensive sectors.
- 2) *Encouragement of new regionalisation processes, reconsideration of regional resources*. Regional cohesion and the development of a unified economic area shall be established by respecting regional and local independence. Obstacles to the free movement of labour, goods and services are to be eliminated and regional markets have to be opened. Small- and medium-sized enterprises have to be supported.
- 3) *Development of human resources, enhancement of the spatial and sectoral mobility of the population*. Improvement of the country's population reproduction indicators, financial encouragement for young people to establish

Table 19

Problems and development tasks in the individual regions

Regional configurations	Development problems of the regions	Tasks to be undertaken
Raw material extraction regions	Infrastructural backwardness, environmental and settlement development conflicts of interests	Human resource development. Labour force settlement. Environmental programmes. Effective settlement policy.
Endangered zones		
– Border regions	Extensive emigration of population. Narrowing of social infrastructure. Defective communication networks. Weak cultural interaction. Conflicts arising from identity. Problems threatening public order.	Organisation of cross-border co-operation. Establishment of transport, cultural and logistics centres. Extension of labour resources. Stabilisation of population numbers. Infrastructural improvement. Strengthening of social security institutions. Revision of legal regulations. Strengthening of border guards and improvement of public security.
– Regions affected by ethnic problems	Events threatening the safety and life of the population, state order and national integrity,	
– Regions threatening state order and the integrity of the country		
Technology transfer regions	Lack of workforce. Lack of industrial areas. Weak infrastructure. Poor business services.	Import of developed technology. Encouragement of strategic investors. Human resources development.
Innovative regions	Lack of regional components of national innovation system. Weak institutions of market organisation. Lack of qualified labour force.	Elaboration of regional innovation strategies. Improvement of communication. Education of labour force. Organisation of technology transfer centres.
Cities of international importance	In Russia, the number of international cities being able to successfully participate in the global competition is limited. The city network is outdated; the cooperation between cities is weak.	Settlement of international corporate centres. Acceleration of infrastructural development. Establishment of high-quality urban environment. Establishment of administrative and service provider institutions of Federal importance.
Old industrial regions	Living conditions of inferior standards. Outdated technical facilities. Weak market relations. Lack of qualifications.	Organisation of industrial parks. Reindustrialisation. Rehabilitation of former industrial settlements. Diversification of the economy.
Newly industrialised regions	High rate of unemployment. Weak infrastructural fundamentals of city development. Many social conflicts. Low development level.	Programmes serving the migration or adaptation of the population. Employment enhancement measures. Extended budgetary resources. Infrastructural development.

Source: *Konceptsiia strategii social'no-ekonomicheskogo razvitiia regionov Rossiiskoi Federacii*. pp. 27–28.

families. Through the improvement of the educational system the skilled labour stock of the regions and the stability of the population must be increased. Migration programmes must be elaborated in order to harmonise the demographic and employment processes of the individual regions, in order to promote the adaptation of migrants to Russian society. The ethno-cultural behaviour of the population must be improved.

- 4) *Improvement of the ecological condition of the regions*. Economic development programmes must be subjected to environmental analysis. The ecological systems of the regions must be improved by energy- and raw material-saving technologies.
- 5) *Improvement of the quality of public administration, budgetary reforms in the regional units representing the regions*. Encouragement of public administrative organisations to use new management methods (strategic planning, efficiency-enhancing measures, different forms of co-operation, public-private partnership).

The draft document defines five priorities for regional development. *First*, it highlights the need for the fastest possible change from the policy of basic gap-reduction to that of polarised development. Different levels (international, regional, district) of growth centres of the country must be determined for concentrated development policy. Regional units which

- a) are characterised by high commodity-, passenger-turnover rates,
- b) have scientific and higher educational institutions of international and national importance,
- c) produce innovations of national importance,
- d) have growth rates above the national average,
- e) have high-quality intellectual capital and a skilled labour stock,
- f) have strategic partnership already established, or be relatively easily established between the participants in public administration, the civil sphere and the economy and
- g) have the capacity to stimulate the development of neighbouring regions within a decade may be considered as “pulling” regions.

The document mentions the regional elements of the national innovation system as the *second* priority. With respect to this, it mentions several possibilities: the integration of closed regions (old military complexes) into regional economies, huge support for the seven Russian Science Cities in order to establish technological transfer centres, the designation of regional research universities (support for basic research and research transfer) and the organisation of special economic zones in the prosperous regions.

The *third* priority of the concept is industrial modernisation and the organisation of competitive industrial clusters. The employment of new industry organising

possibilities – serving the development of a network-like economy – will face the traditionally vertically organised Russian industry with serious difficulties. Support for the new economy will necessitate a great deal of government assistance.

The *fourth* priority includes employment policy and population mobility activity and it enumerates countless means and institutions of modern European practice.

The *fifth* priority refers to administrative and budgetary matters. The administrative modernisation programmes on the agenda include the reorganisation of inter-departmental cooperation and the establishment of monitoring systems. The reform of the budgetary sphere represents the biggest challenge. The overall financing system of local governments must be reorganised.

One measure serving the realisation of the strategic concept was the establishment of an inter-departmental committee within the framework of the Ministry of Regional Policy which will primarily undertake “soft” reconciliation tasks, prepare itself to revise the implementation of the concept and will operate the monitoring network. The concept proposes to set up a federal regional development agency which would undertake concrete organisational and consulting tasks with respect to the implementation of regional and inter-sectoral programmes and would also manage resource coordination. The other institution to be set up is a National Regional and City Planning Institute, which, in the form of a holding company, would be an important player in regional planning.

The strategic concept also indicates the implementation schedule. According to this, in the first stage (2005–2008), research will proceed, and priorities include reconciliation between the regions. Pilot regions will be determined and the previously mentioned institutions and the monitoring network will be established. In the second stage (2007–2010) the complete range of measures of the new policy are to be developed in the pilot regions, the new system of government support is to be introduced and regional objective programmes will be launched. In the third stage (2011–2020), an increasing number of regions will join the new system, and the objectives, measure and institutions of Russian regional policy will become mainstreamed.

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