Economic-Theoretical Model Of Evolution Of Subsidized Regions Into Self-Developing Ones

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Abstract. The article reveals the need for a new, systematic approach to the study of regional development paths with the introduction of management mechanisms that stimulate territories for self-development, substantiating the importance of developing an economic-theoretical model of the evolution of underdeveloped subsidized regions into developing regions, mainly due to their own economic sources.

Keywords: differentiation of territories, regional development, support for regional development, self-development, macroeconomic factors and intra-regional mechanisms and forms of self-development, state regional policy, tax potential of the regions, economic transformation.

Introduction.

In the area of 3.1. paragraphs 61-64 of the State programme for the implementation of the Strategy for Action in five priority areas of development of the Republic of Uzbekistan in 2017-2021 in the "Year of active investment and social development" entrusted with "reducing disparities in the development of the territories and continuing the policy of reducing their subsidy, improving the methods of budgetary regulation of regional development and expanding the relevant incentive measures".

The objectives of the new stage of development of fiscal decentralization and inter-budget relations, outlined in the Decree of the President of the Republic of Uzbekistan № 40486 of December 26, 2018 "On the forecast of basic macroeconomic indicators and parameters of the State Budget of the Republic of
Uzbekistan for 2019 and budget guidelines for 2020-2021 years”, stipulate the need to expand the independence and responsibility of regions for sustainable growth of the regional economy and living standards. A number of functions of regulation of social and economic processes passes from the national level to the regional level, the role of local budgets in ensuring the progressive dynamics of regional economic complexes and the social sphere is increasing.

The study of the issues of creating an economic-theoretical model of the evolution of subsidized territories into self-developing ones is one of the poorly developed problems that requires further theoretical understanding and practical development, which determines the scientific and practical significance of this article.

The most important task of socio-economic development of the country is the transition of the economy to sustainable progressive development. The central element of this process should be, in our opinion, the transformation of the state regional economic policy, the essence of which is to change its goal-setting. The current regional policy is mainly focused not on the development of regions, but on their support, which does not ensure that the regions reach the trajectory of sustainable economic growth. Without denying the importance and expediency of the practice of state support in the conditions of historically developed differentiation of territories by the level of social and economic development, in order to increase the efficiency of the regional economy it is necessary to introduce mechanisms of governance that stimulate the territories to self-development.

The central place in the implementation of the policy aimed at increasing the independence of the regions is occupied by the issues of understanding the essence of self-development of the territories on the basis of a systematic approach to their study, the formation of conditions for self-developing territorial systems, including macroeconomic factors and intraregional mechanisms and forms of self-development, the problems of strengthening the financial base of the territories,
primarily by increasing their own sources of development. The development of an economic-theoretical model of evolution of underdeveloped subsidized regions into developing regions mainly due to their own economic sources is of great importance. The creation of such a model will help the state authorities to apply more effectively various tools and mechanisms at each stage of development, as well as to improve the accuracy of forecasting in determining the target socio-economic benchmarks and indicators for different groups of regions.

**Literature review.**

Issues of creating a theoretical model of evolution of underdeveloped subsidized regions into developing ones are the object of close attention of many scientists and specialists, although this process in our country is characterized by the initial stage of formation.

According to M. Vasilyeva, "...many problems of territory development are connected not only with their level differentiation determined by budget potential, but also with efficiency and effectiveness of budget expenditures. Currently, the main problem of management at the regional and municipal levels is the insufficient amount of budget resources, as well as their inefficient or inappropriate use" [3].

Summarizing the overall picture in this issue, S. Gilyarovskaya writes: "In the development of the traditional understanding of the autonomy of budgets of territories as a certain autonomy in the organization of the budget process and the formation of budget funds, the paper clarifies the economic content of the principle of autonomy of budgets as a set of financial rights and responsibilities of regional and local authorities, ensuring relative (to the maximum possible extent) budgetary independence in the formation and use of budgetary resources of their territories". [4].

Noting the importance of this issue in the management of public finances V. Mateyuk noted that: "The independence and balance of budgets at each level of the
budget system are the most important conditions resulting from the requirements of the budgetary federalism: differentiation of expenditure powers between all levels of power; coordination of federal, regional and local programs of growth and social-economic development in order to balance the interests of public authorities and local self-government; differentiation of tax revenues between the links of the budget system; financial equalization of social and economic [5].

**Analysis and results.**

*Initial provisions of the economic-theoretical model.*

The ability of territorial systems to develop sustainably mainly at the expense of their own economic resources depends on the level of their economic potential and the efficiency of its use in the process of expanded socio-economic reproduction of GRP. The economic potential of the region is a set of resources available within its borders, both those already involved in the economic turnover and those that can be used in the future. Elements of the economic potential are the natural resource potential, labor, production, infrastructure, financial and innovation potential. At the same time, the economic potential of the region as a system is not a simple sum of components, but also links and interactions that ensure the integrity of the region's economy. The economic potential is always greater than the sum of its constituent parts due to the emergence of new quality due to the interaction of its elements. The economic potential of the region is the basis of GRP production, determines its structure by types of economic activities. The dynamics and stability of the process of expanded GRP reproduction depends on the efficiency of the use of available economic resources in the territory, financial and economic sources of increasing the welfare of the population are created. In the process of secondary GRP redistribution, financial and economic resources of the region are directed to final consumption, gross saving (investment) and net export/import (taking into account interregional trade).
Final consumption consists of expenditures: 1) on final consumption of households, 2) government expenditures on individual goods and services and on collective services, 3) expenditures on final consumption of non-profit organizations serving households. Gross accumulation includes fixed capital formation, change in inventories and net acquisition of valuables.

The structure of the secondary distribution of GRP characterizes the strategic scenarios of the regional economy development:

1) Economic growth can be provided through the increase of final consumption of households, private enterprises and the public sector. In this case, the development occurs through the use of available resources and factors of production in the economy of the region. This process may be accompanied by an increase in the wages of the population and an increase in their lending;

2) Growth can be achieved by actively attracting investment and increasing gross savings in the economy of the region. This development scenario includes the expansion of the economic potential of the territory through the involvement of resources not used in economic activity, development/exploitation of new natural resources, creation of new production factors, improvement of existing ones, active introduction of innovations. This process may be accompanied by the growth of gross profit of the economy and mixed income, as well as an increase in lending to enterprises.

The golden rule or golden ratio in the distribution of national income to current consumption and investment provides for a level of capital accumulation that ensures a stable state of the economy with the highest level of consumption. Table 1 shows the region's domestic financial and economic sources of development, which are closely interlinked among the three blocks:

1) the economic potential of the region and its constituent elements;
2) gross regional product and its various structural elements at different stages of reproduction;

<table>
<thead>
<tr>
<th>Local budget of the region concerned</th>
<th>Local budget expenditures of the respective region</th>
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<tbody>
<tr>
<td>Own (tax and non-tax) revenues of the local budget of the respective region</td>
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</table>

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<tr>
<th>Gross regional product (GRP)</th>
<th>GRP = A + B + C + O (production by types of economic activity)</th>
<th>GRP = Profit + Taxes + Salary</th>
<th>GRP = Gross savings + Final consumption + export/import</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional economic potential</td>
<td>Natural resources potential</td>
<td>Labor potential</td>
<td>Production potential</td>
</tr>
<tr>
<td>Economic potential of the region, not involved in the economic turnover</td>
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</table>

3) local budget.

Table.1. Internal financial and economic sources of the region's development.

According to the presented scheme, the economic potential is the basis for conducting economic activities and living in the area of economic activity. It can be increased by involving unused resources, including intangible ones, in the
economic turnover, as well as by reinvesting income received by economic agents in the territory. The extent to which resources are used effectively depends on the size of the GRP being created on the territory of the country.

Criteria and indicators of assessment of regions in the process of their economic transformations.

Self-development is, first of all, a strategically stable ability of the region to provide an expanded reproduction of GRP mainly at the expense of its own revenue sources in the interests of realization of both macroeconomic goals and priorities, and intraregional targets of a systemic nature in the conditions of the existing macroenvironment in the society.

In this regard, the most important criteria for assessing subsidized regions in the process of their economic transformation are: 1) ensuring the sustainability of economic growth and improvement of living standards of the population; 2) increasing the share of domestic resources in the structure of financial and economic sources of growth; 3) increasing the innovativeness of economic development; 4) achieving macroeconomic goals; 5) improving the efficiency of solving intraregional problems by taking into account the territorial socio-economic peculiarities. Self-developing socio-economic systems are characterized by a constant movement towards a point of sustainable balance. Sustainability is an intrinsic feature of the system that does not depend on the magnitude of external shocks. At the moment when the equilibrium is broken, the forces of internal counteraction appear, restoring the equilibrium. The unstable state of the system is characterized by continuous oscillations or avalanche-like increasing unidirectional process, eventually destroying the system[6,63].

Considering the socio-economic system, first of all, as dynamic, it is necessary to allocate nuances of dynamic stability. Dynamic stability is not a special kind of stability as such. It is a situation when the vector of motion of the system does not change its direction. In this case, the rate of development changes
only the absolute value, without changing the direction. Thus, in this context, the use of the concept of "sustainable economic growth" as a criterion characterizing the level of self-development of the region is justified. At the same time, sustainable economic growth will be understood as growth that can be maintained for a fairly long time. The rates of sustainable growth should ensure that available resources correspond to the volume of aggregate demand, which will eliminate the need to increase prices for factors of production due to their growing shortage. The average annual index of physical volume of gross regional product for a certain period of time, in percentage terms, is a quantitative assessment of sustainable economic growth. The indicator is calculated using the average geometric formula

$$\hat{E} = \sqrt[n]{\hat{E}_1 \times \hat{E}_2 \times \ldots \times \hat{E}_i}$$

(1)

where $E$ is the annual growth rate expressed in coefficients,

$n$ - number of years [7,4].

The most important condition for the implementation of the concept of self-development of territories is the humanization of economic development, which is manifested primarily in the strengthening of the social orientation of the economy. The aim of the region's socially oriented economy is to expand the reproduction of human potential on the basis of improving the standard of living and the quality of life. Consumption of social benefits and services by the population, as well as financial support for the functioning of the social sphere, including education, health care, culture, environment and public utilities, are integral elements of the process of social reproduction. Among the most important indicators used in the process of assessing the social orientation of the economy of the territories and the financial basis of the system of social reproduction are the following:

1. Gross value added, created as a result of the provision of all forms of ownership of social services by economic entities, per capita.
2. Social investment from all sources of funding (budgetary and extra-budgetary) per capita.
3. Social sphere budget expenditures, per capita.
4. Average per capita cash income of the population.
5. The poverty level of the region's population, calculated as the relative share of the population with monetary incomes below the subsistence minimum.
6. Level of income differentiation of the population (fund coefficient), characterizing the degree of social stratification and calculated as the ratio between the average levels of income of 10% of the population with the highest income and 10% of the population with the lowest income.

\[ J_i = \frac{KA_E^x}{KA_E^y} \]  

(2) where

- \( KA_E^x \) - value \( i \) of the quality of life indicator in the study area
- \( KA_E^y \) - the value \( i \) of the indicator of the quality of life in the reference territory of the Republic of Uzbekistan

Identification of financial and economic sources of the region's development should be based on comparison of the produced and consumed GRP on the territory. In this regard, special attention should be paid to the data on the GRP structure deficit/surplus of financial resources, calculated as the difference between the produced and consumed in the GRP territory. The balance of GRP produced and used is the result of secondary redistribution of the produced added value in the economic space between the region and other local authorities, which are part of the region, the republican center and foreign countries through the channels of material and financial flows. This indicator takes into account the balance of interregional trade, foreign economic activity, inflow/outflow of financial capital. A large volume of the total balance in the conditions of perfect market mechanisms of primary and secondary distribution of income and methods of their use on the final consumption of the population
and gross fixed capital accumulation (in case of miserable shadow leakage) from the territory can indirectly show the possible degree of social and economic well-being of the region. However, in modern conditions of economic functioning in the Republic of Uzbekistan, the positive balance of the region is not always a sign of its relative socio-economic well-being [8, 46]. In this regard, the analysis of financial and economic sources of development of regions needs to be expanded by assessing the structure of sources of investment in fixed assets.

The main instrument for analyzing the movement of all fiscal flows in the region is the consolidated budget balance of the territory, which reflects the aggregate of financial resources of the consolidated local budget, territorial offices of state extra-budgetary social funds. In addition, the consolidated budget balance takes into account the financial flows of two opposite directions: revenues coming to the republican level from the territory of the region, and expenditures carried out from the republican center in the regions. Thus, the formation of the consolidated budget balance depends on two factors: 1) on the economic potential of the territory and the level of budget burden on it; 2) on the existing system of inter-budgetary relations. In order to make an objective assessment of the region by the level of fiscal capacity of its own financial sources, it is necessary to compare all tax and non-tax revenues collected from the territory in the consolidated budget system with all budget expenditures carried out in the territory. This will make it possible to assess the level of real budget subsidies/recipientships in the region. The indicator is calculated according to the following formula:

$$BO=(RT+RF+RV_n)/(NR+DR+NF+DF+NV_n+DV_n)\times 100\%$$  \hspace{1cm} (3)

where $BO$ - the real budget capacity of the region;

$RT$ - consolidated local budget expenditures;
RF - direct expenditures of the republican budget in the region;

Rvn - expenditures of territorial branches of state extra-budgetary social funds;

NR - tax revenues of the consolidated budget of the region;

DR - own non-tax revenues of the consolidated budget of the region (without financial transfers from the republican budget and extra-budgetary funds);

NF - tax revenues received by the republican budget from the territory;

DF - non-tax revenues received by the republican budget from the territory;

NVn - tax revenues received by the state non-budgetary social funds from the territory;

Dvn - non-tax revenues (insurance payments, fines, penalties, etc.) received by the state non-budgetary social funds from the territory.

The focus on the creation of an innovative model of the economy in the Republic of Uzbekistan leads to the need to develop a certain organization of innovation activities in the country as a whole and in individual regions, because it requires the formation of an effective mechanism for the emergence, dissemination and use of innovations.

Thus, innovation and scientific and technological progress are the most important factor in the growth of the regional economy, qualitatively characterizing the ability of territories to technologically renew themselves. In this regard, as a criterion of self-development it is necessary to use the average for the period value of the indicator of internal costs of research and development, as a percentage of the gross regional product. This indicator is calculated using the average algebraic formula:
where $RD$ is the internal costs of research and development, expressed as a percentage of GRP,

$$RD = \frac{RD_1 + RD_2 + ... + RD_n}{n}$$  \hspace{1cm} (4)

$n$ - number of years [9,45-52].

The economic transformation of regions from the state of subsidy to self-development should take place in the interests of realization of macroeconomic goals and national priorities. First of all, this process should not be to the detriment of the development of other regions, reduction of stability and balance of the entire budget system of the country. At the same time, the main goal should be to reduce the level of interregional socio-economic asymmetry. Increasing the financial security of subsidized regions should provide conditions for stimulating regional authorities to develop their own economic potential, conduct an effective budget policy, create an attractive investment and business climate in the territories under their jurisdiction. Reducing asymmetry in regional economic development may become a key factor in achieving more sustainable macroeconomic growth in the country. According to M. Abdusalyamov, "financial stabilization, in which additional funds are directed to economically weak regions to improve infrastructure, can accelerate economic growth if the capital intended for such investments promises to return a higher marginal amount of returns in poor regions than in rich ones" [10,14]. However, it is possible that the redistribution of resources from the economically developed and rich to the weaker regions hinders economic growth in the latter, and is so significant that it causes a decline in economic growth throughout the country. The economic result from the redistribution of financial resources from developed regions in favor of undeveloped regions depends largely on the level of competitiveness of production factors and the multiplier effect in these regions-recipients. If redistributed budget funds are spent on current needs or lead to an increase in future operating expenses in the
public sector, the redistribution is inefficient. On the contrary, if they ensure qualitative improvement of the budget infrastructure and future reduction of budget expenditures for its maintenance, it is justified.

A number of research studies have shown that financial assistance to regions has not contributed to faster growth of GRP per capita (i.e., it has not also met stabilization goals; in this case, stabilization is defined as the redistribution of centralized resources in such a way that more financial assistance to poorer regions allows them to increase the rate of growth of their economies in order to "catch up" with the standard of living of richer regions, whose economies are also growing at some rate), or regions with pain. The lack of influence on the growth of investments in fixed assets financed from the budget confirms the conclusions about the extremely low efficiency and predominantly social and political orientation of budget investments. Thus, the most important indicators reflecting the macroeconomic goals of increasing the financial security of the regions are the level of interregional asymmetry: budget, GRP, and monetary incomes of the population. The process of transformation of subsidized regions into self-developing ones should meet the criterion of increasing the efficiency of solving intraregional tasks by taking into account territorial socio-economic peculiarities. This implies a gradual expansion of the powers of regional authorities to conduct tax, budget and investment policy in the territories under their jurisdiction.

Not only the financial basis, but also and institutional conditions which would provide the sufficient level of independence of regional authorities is important

for the system of self-development. At the moment high extent of centralization of powers of authority is characteristic of model of the tax and budgetary system of the Republic of Uzbekistan.

The major criteria and indicators of assessment of subsidized regions in the course of their economic transformation are presented in table 1.

Table 1.
Criteria and indicators of evaluation of subsidized regions in the process of their economic transformation

<table>
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<tr>
<th>№</th>
<th>Criteria</th>
<th>Indicators</th>
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<tbody>
<tr>
<td>1.</td>
<td>Ensuring sustainable economic growth in the region</td>
<td>Average annual index of physical volume of gross regional product for a certain</td>
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<tr>
<td>2.</td>
<td>Increasing the level of social orientation of the regional economy</td>
<td>1. The gross added value created as a result of providing all forms of ownership of social services by economic entities, per capita;</td>
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<td></td>
<td></td>
<td>2. Investments into the social sphere from all sources of financing (budgetary and off-budget) per capita;</td>
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<td></td>
<td>3. Budget outlays on the social sphere, per capita;</td>
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<td></td>
<td>4. Average monetary per capita income of the population;</td>
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<td></td>
<td></td>
<td>5. The level of poverty of the population of the region counted as a relative share of the population with monetary income is lower than the size of a subsistence minimum;</td>
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<td></td>
<td></td>
<td>6. The level of differentiation of income of the population (coefficient of funds) characterizing extent of social stratification and estimated as a ratio between the average levels of monetary income of 10% of the</td>
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</table>
population with the highest income and 10% of the population with the lowest income. For each territory the index of quality of life considering the given indicators in the region of rather corresponding indicators of the reference territory paid off.

| 3. Increase in a share of internal resources in structure of financial and economic sources of growth | 1. The deficiency/surplus of financial resources in structure of GRP, pays off as a difference between made and consumed in the territory of GRP.  
2. Security of investments with own sources of financing pays off:  
a) indicator of a share of own sources of financing of investments, average for the period (own means of the enterprises and means of the local budget);  
b) an indicator of the relation of gross accumulation of fixed capital, average for the period, to the gross profit of economy and to the mixed income.  
3. Level of real budgetary dependence on subsidies / recipients of the region, pays off as the relation of all budget outlays which are carried out in the territory to all tax and non-tax income collected from the territory in the consolidated budgetary system. |
<table>
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<tr>
<td>4. Growth of level of innovation of economy of the region</td>
<td>Average for the period value of an indicator of volume of internal costs of research and development as a percentage to a gross regional product.</td>
</tr>
<tr>
<td>5. Achievement of the macroeconomic purpose of increase in financial security</td>
<td>Level of interregional asymmetry: budgetary, VRP, monetary income of the population.</td>
</tr>
<tr>
<td>of regions</td>
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<td>--------------------------------------------------------------------------</td>
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<tr>
<td>6. Increase in efficiency of the solution of intraregional tasks by means of accounting of territorial social and economic features</td>
<td>1) Degree of tax independence, pays off (to define the tax rates as the relation of quantity of the taxes coming to the consolidated local budgets which local authorities can influence, to provide the tax concessions, to change calculation of tax base) to total number of the taxes coming to the consolidated local budgets; 2) the volume of tax income in GDP % which local authorities can influence is calculated as the work of a share of taxes in GDP, region shares in the consolidated tax income of the country and an exponent of tax independence of local authorities.</td>
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In the course of evolution of underdeveloped territories from a condition of dependence on subsidies to financial self-sufficiency and self-development there will be certain changes in level and quality of life of the population, the system of its social assistance.

The conducted researches [11] revealed that there is the return interrelation between VRP per capita of the region and the indicators characterizing the social sphere in VRP - a share of gross added value of social services and social budget outlays - the VRP level is higher, the share of the social sphere is lower. It is quite explainable as at implementation of policy of the interbudgetary alignment, in subsidized regions due to redistribution of financial means the level of financing of social services rises to a certain average about the country of level in absolute values, at the same time the base of comparison – VRP on soul remains at the previous low level. This situation can be characterized as existence of disproportionately high share of the social sphere in relation to the level of development of economy of the region. In the course of evolution of subsidized
regions such disproportions in structure of VRP as it was already noted above, will gradually smooth out.

The dialectics of emergence of positive and negative economic effects of carrying out social and economic policy in subsidized regions can be following:

1. Lower level of living of the population and low average monetary per capita income is characteristic of underdeveloped subsidized territories.

In terms of the level of solvent demand of the population it is a negative factor for development of economy, on the other hand, it is competitive advantage of these territories at attraction of investments and placement at itself new productions. In this regard ensuring compliance of growth of the salary and labor productivity becomes the major task for governing bodies. The advancing growth rate of monetary income of the population in comparison with growth rates of VRP and investments during the long period speaks about emergence of disproportions in economic development. In too time growth of the salary of workers of the budgetary sphere has no such negative effect owing to specifics of the public sector of economy, however it has to correspond to increase in budget revenues.

2. For underdeveloped subsidized regions expanded reproduction of the social sphere because of higher share in structure of economy in the short-term period has bigger positive economic effect, than for the developed territories.

In terms of assessment of expenses consequences, it is necessary to consider not only social effect, but also direct impact on increase in economic activity on territories where investments into social objects are carried out (hospitals, schools, sports constructions, etc.). However extensive development of a social infrastructure without simultaneous proportional development of economy of the territory in the medium term can turn back increase in the budgetary costs for its maintenance and financial losses. In this regard it is strategically important to observe proportions of expanded reproduction of the social sphere and GRP of the region. If throughout long term in the subsidized region the advancing growth rate
of investments into the social sphere in comparison is observed by the total amount of investments and rates of GRP, then it can demonstrate inefficiency of a system of social and economic reproduction. However, it is necessary to carry out the assessment taking into account the quality indicators characterizing the social effect which is transformed in the medium-term period to economic in the form of decrease in the joint economic costs of human resources. It is not difficult to notice that the considered social and economic effects are fully characteristic of all regions (subsidized, moderately developed, spontaneous), however in the conditions of low development of an economic basis, they become the most sensitive in underdeveloped subsidized regions.

Feature of process of social reproduction in such regions is that in them "the gold proportion" in distribution of a gross income to the current consumption and investments is divided by the special rule – it is necessary to provide such consumption level which provides a steady social state with the highest level of accumulation of the capital.

It should be noted that for the objective reasons not each underdeveloped subsidized region is capable to come in the long term to a self-development trajectory. In this regard, for decrease in interregional asymmetry spatial transformation by means of administrative-territorial integration (association) of subsidized and spontaneous regions, including through administrative submission of governing bodies of "poor" territories to the authorities of economically more developed neighboring territories (or establishment of uniform territorial authorities of management) can become the possible decision.

The integration of regions attracting "horizontal" alignment of the tax potential is represented rather perspective decision as provides optimization of territorial structure of economy, decrease in counter financial flows in "the republican center-regions" system, raises a role of own sources of social and
economic development of regions, improves coordination of work of authorities of different level.

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