

Analysis of World and Russian Best Practices of Strategic Development of Mono-Towns

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Abstract: The article investigates best world practices used in the sphere of mono-town strategic development, the strategies of such development are given which can be practically used in organization of efficient state support of towns with one-industry structure in the Russian Federation.

Key words: Mono-towns • Mono-territories • Social and economic development of mono-towns • Problems of mono-towns development • Strategy to develop mono-towns

INTRODUCTION

Mono-towns are considered to be very characteristic of planned economy but they also existed all the time in other economic systems. Mono-towns appeared in the USA in the end of 19th century, especially in industrial regions of the Middle West. At the peak of their development the number of mono-towns reached 2500 which amounted to 3% of the USA population.

Mono-towns play prominent part in industrial exploration of new territories. That is why in different countries in different years a lot of regulatory acts were adopted in order to regulate and stimulate the allocation of production forces in small and medium-sized towns and restrict or even prohibit the construction of new industrial enterprises in the highly-populated regions, with a lot of factories and plants; Great Britain started to solve the problems of mono-towns in 70s [1].

In some countries they developed long-term development forecasts for big urban territories as a whole, including the suburbs of very big cities (for example, Tokyo). In the USA migration of the big cities population from the centers to the suburbs took place since 1960s. Development of small towns was prioritized issue in Canada. Big program elaborated by Canada government intended for industrial development of small northern towns was called "Facing the North". While developing northern territories in Canada they formed separate small towns at the saturated with natural resources territories which must become the center of the adjacent undeveloped areas.

World practice shows that there are two ways to solve mono-towns problem. The first one (American) suggests removal of the inhabitants to the towns which need workforce. The city becomes smaller but it still performs its city functions. Second way (European) suggests using of state and regional programs for territory rehabilitation. These programs include measures to resist negative ecological effects, infrastructure development projects and re-training of workforce. This foreign experience can not be used in Russia because of the big number of mono-towns. For example, in Kazakhstan there are only 27 mono-towns [2].

There are also 2 basic methods which are used in world practice: fiscal and market. Usually both are used in combination.

Removal of the workforce from the cities with shortage of working places to the towns where workforce is needed is one of the market ways to solve mono-towns problem. It was most common in the USA because of high mobility of population.

In Russia the use of this method can not be so easy because of low mobility of population and undeveloped market of rented houses. Big spaces and mono-town population aging also hinder practical use of this approach. Elderly people are characterized by low level of mobility.

Fiscal solution of mono-towns problems is connected with spending money from regional or state budgets (loss-of-employment compensation, compensation for earlier retirement, unemployment compensation, subsidies for moving to other towns, privileged loans to buy a

house etc.). In 1990s in Great Britain they developed state program intended for renewal of 57 towns; in the framework of this program they provided financial aid in development and restoration of cities and re-cultivation of lands which were damaged because of industrial activity [3].

Analysis of world best practices in the sphere of mono-towns development showed that, as a rule, market methods prevail. Firstly, they diversify mono-town economy on the base of town-forming enterprise (organizing of small companies, changes in specialization), or with support of state finances. Secondly, mono-town population moves to a new place. In both cases they efficiently use market incentives.

Focus in the world programs devoted to mono-towns support is made on the socially-oriented measures. Key moment here is insurance against unemployment which refers not only to unemployed persons but to poor people who have a job as well. These programs are carried out with the help from NCOs and local authorities and business, which act together to solve town problems on the basis of private-public partnership. The most illustrative examples of mono-towns strategic development are as follows:

Substitution of Industry [4]: Service industries prevail in development of modern economy, that is why this strategy means re-orientation of town industry to service sector (telecommunications, education, logistical services etc.). Use of this strategy can be followed by serious socio-economic problems.

Substitution strategy is best exemplified by Glasgow (Great Britain) [5, 6]. Glasgow lost its competitive advantages in production of industrial equipment in 1960s. The highest rates of development were observed in the suburbs thanks to use of more advanced technologies and moving of city workforce out of city. The center of the city has become the concentration of all socio-economic problems: social conflicts, high criminal rate, poverty. In 1970 the city problems worsened because of reduction of production volumes of heavy equipment industry. In the middle of 1980s the programs intended for diversification of city economy were developed on the base of substitution of processing industry for service industries in order to provide sustainable development of the city economy.

In order to attract investments the following measures were taken: improvement of city image, rehabilitation of industrial infrastructure, cultural infrastructure and dwelling stock.

And in 1990 Glasgow was rewarded the name of European cultural host city.

The result of city policy was creation of more than 50000 new working places during 10 years. 90% of population works in service sector. 10% of population work in the tourism sector. Employment rate in financial sector of the city increased for 30% in 1998-2001. Development of service sector brought multiplicative effect. Electronics and communications sectors started to flourish because of attracting high-qualification specialists and effective education system.

Today Glasgow prioritized sphere is organization of working places in high-tech industry, consumer goods industry and small and medium business. Bio-technologies are based on cooperation between companies and universities. The same situation is observed in the sector of computer programs.

Key mechanism of realization of strategic plans to recover the city is financial aid from EU. The effects of proposed plans were evaluated before the implementation: working places forecast, influence on the education and ecological effect.

Several organizations meant for the support of entrepreneurship were formed: Glasgow Alliance, Scottish Enterprise Glasgow and Scottish Inward Investment) which are responsible for attracting private and public investments into Glasgow.

In 2006 new strategic plan "Glasgow: step-by-step change" was adopted for 10 years. The focuses are as follows: measures to support profitable working places, innovations and high production rate, general prosperity, concord between economic, physical, cultural and social conditions. The purpose of the strategy is reinforcement of economic base and providing better quality of working places thanks to continuous physical, social, economic, cultural and ecological rehabilitation of the city, elimination of poverty, social isolation and solving the problem of nation's health.

Some Russian towns have the same opportunities for recovery of their economy. The success in application of this strategy is based on attracting highly qualified workforce and efficient system of higher education.

Entrepreneurship Development [4]: Second strategy which can be used in rehabilitation of mono-towns is based on development of investment-oriented entrepreneurship facilitating long-term economic growth of town economy.

This strategy was used in South Yorkshire. The problems of this city originated from mining industry in Great Britain, where working places were reduced and 70 000 miners lost their job.

EU financed the program intended for keeping and creation of working places in the amount of 1,8 billion euro. The main obstacle to realization of this program was motivation. Though 2/3 of miners agreed at the beneficial effect of re-training programs but they did not try to find work. Zero motivation to look for work was determined by the payment for mortgages, the right to state subsidies for sick-leave, absence of entrepreneurial experience.

Thus, in order to solve mono-towns problems it is insufficient to complete re-training of the staff; it must be supplied with the working places programs.

Limited use of this strategy in Russia is connected with absence of system entrepreneurial culture and high administrative barriers.

Main mechanisms to develop entrepreneurship can be as follows:

- Simplification of labour code;
- Reduction of bureaucracy barriers while initiating one's own business;
- Development of retraining programs with due regard to particularities of each territory;
- Providing financial and start-up support to new enterprises.

Free Economic Zones [4]: Formation of free economic zones is intended for improvement of investment climate of the territories. Bad investment climate first of all is connected with high costs for business development, which in turn are determined by poor transport infrastructure, restricted access to the capital, deficit in qualified personnel etc.

Reasoning of free economic zone formation is based on comparison of financial benefits with additional costs. In every specific case it is necessary to provide careful analysis of the optimal level of state costs for formation of free economic zone and the volume of private investments which must be attracted; incentives for private investors must be considered.

This strategy was used in Corby (Great Britain) where steel industry prevailed [1, 3].

In Corby they founded Industry development center(IDC) for formation of the first free economic zone. The IDC was made of the representatives of local authorities, business, (former) state steel company and national committee of "new towns".

The incentives for private investors were tax holidays in regard to ownership and rent during 10 years and minimum state regulation. The advantage was geographic location in the center of the country.

The strategy gave positive results, only during 5 years about 4000 working places appeared in the town. Corby became the most famous town in the sphere of financial recreation.

The success of realization of Corby strategies was determined by the investors' belief in stability of stimulation and tax systems.

Tax holidays stimulate investments into innovative spheres. Reduction of property taxes can result in growth of unemployment rate. Higher taxes on property lead to unemployment reduction or business activity. Tax holidays intended to increase employment of some population groups can result in employment rate growth. But the success of tax holidays depends on laws or conditions imposed on those who get these tax holidays. If there are too many conditions the effect from tax holidays is reduced.

Tax privileges have different degree of efficiency that is why proper choice of tax privileges is important. For example, efficiency of capital tax depends on the balance between growth of productivity and the substitution effect. Besides that different regions need different size of tax privileges.

It is worth mentioning that in most cases economic zones are not the most effective way to increase employment.

Successful realization of the free economic zone strategy is based on the following factors:

- Regular assessment of economic results of the zone and the risks of business-projects (when there are no subsidies).
- The program must be limited in time.
- Restriction of the incentives for companies which would like to use the zone advantages.
- Choosing the most appropriate tax incentives and other advantages.
- Keeping high level of state services in addition to useful results of the economic zone.
- Restriction of the rules must be limited to minimum.
- For every zone its own specific set of incentives must be developed.
- Number of zones must be limited.

The Role of Clusters in Economy [7]: Industrial cluster is a group of enterprises and NCOs for which group membership is important element of individual competitiveness. The cluster is formed by "relations between the buyer and the supplier, or by general technologies, or the same consumers, distribution channels or the sources of production factors".

It is necessary to differ the notions “industrial cluster” and “regional industrial cluster”. Industrial clusters can be more or less geographically concentrated in one area. Early theories of regional development pointed out that relations between companies can be rather sensitive to the distances between these companies. But at current stage of development these distances are of no importance any more and reliable relations can occur between the enterprises situated in the regions geographically distant from each other. For example, Bergman and Feser give example with manufacturers of automobile components in the southern state Ohio and northern state Kentucky which supply their products to assembly plants in Michigan and South Carolina. If we pay attention to the principle of geographic nearness we can identify two automobile clusters - northern and southern. But with more scrutinized look we understand that there is only one - it is situated along the axis North-South between traditional automobile Michigan, concentration of the suppliers in Kentucky, Ohio, Carolina and Georgia and new automobile-manufacturers in South Carolina, Alabama and Tennessee.

Regional industrial cluster is such industrial cluster which is geographically concentrated in one region with single infrastructure, labour market and other economic institutions. Regional clusters in some sense are close to Italian industrial districts and industrial complexes which were investigated by Czamanski in his early works on theory [8] and Maillat [3], in the concept of innovation districts. All these approaches are based on the same idea: geographic nearness of enterprises provide some competitive advantages, the difference was only in specific character of these advantages.

Some clusters already exist at present time. It is, for example, automobile industry in Detroit, manufacturing of computers in Silicone valley and flowers in Holland. Clusters can also be developing or potential. Biotechnologies as a cluster are developing in some regions of the world, progress in medical care, biology and chemistry allows to create quite new products and facilitates joint activity of companies, industries, research institutions and other economic agents. In terms of state policy it is important to know what can be a cluster (with appropriate state support), than what is cluster now.

City of Birmingham is a good example of cluster in automobile industry of Great Britain. State support in the amount of more than 16 billion US dollars in 1975 could not hinder bankruptcy of British Leyland. After

privatization and several mergers the company was renamed to Rover Group. Then the company merged with MG after going bankrupt in 2005.

In order to reduce its dependency on the production the city started to develop itself as transport and logistic center, the center of exhibitions and conferences, as financial center.

In the process of diversification of the city economy the clusters were formed which included the manufactures, service companies and newly privatized industrial enterprises.

State policy can influence clusters development:

- Opportunities for re-training
- Stimulation of partnership with clusters and competition between them;
- Elimination of obstacles which hinder development of clusters;
- Limitation of subsidies and introduction of efficient laws about competition;
- Encouragement of outsourcing.

Some regions of Russia have good perspectives for further cluster development, because the most demanded form of modernization of mono-town economy is industrial and technological parks with active participation of private capital (Nizhni Tagil, Tolyatti, Leninsk-Kuznetski, Chistopol, Vyatskie Polyany etc.) which are organized at the territories of former big enterprises using out-of-date technology [9].

We believe that mono-towns while diversifying their economy can identify the most perspective industries with the aid of analysis of spatial allocation of industries in EU.

In the framework of EU they identify 3 types of problem territories: poorly developed, crisis industrial and agricultural territories. The poorly developed territories are identified on the basis of GDP per one person - it must be not less than 75% of the average in EU. Crisis industrial territories are identified on the basis of unemployment level, which must be higher than average in EU during 3 years. Reduction of employment rate in separate industries is also taken into account. The list of agricultural territories includes territories with high specific weight of employees in agriculture and low level of socio-economic development. In regard to every group special tools are developed, which must facilitate overcoming of crisis trends in development of towns in every group.

Most often in one region (more 50% of cases) the following pairs of industries co-exist: [10]

- Manufacturing clothes and textile industry;
- Financial sector and the sector of business services;
- Financial sector and transport;
- Construction and food industry;
- Construction and transport;
- Food industry and transport;
- Production of medical equipment and tools.

Summarizing all said above it must be said that all strategies are based on social measures, the core of which is unemployment. While making decisions in regard to structural re-construction of mono-town economies, they must use differentiated approach based on historical conditions and available facilities which can create investment and social attractiveness, without which competitive industrial zones can not appear. Realization of the strategy is not possible without active participation of public organizations, local government and business which together can solve town problems on the basis of private public partnership.

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