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**DIFFERENCES IN THE MANAGEMENT OF SOCIO-ECONOMIC DEVELOPMENT IN THE BALTIC STATES:  
LEVELS, APPROACHES AND MODELS**

Research article

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**Abstract**

Theoretical and applied aspects of long-term management of spatial development of the Baltic States (Latvia, Lithuania, Estonia) at three levels of management are considered: national, regional and local within the framework of integration processes of development and administrative-territorial reforms in 2009 (Lithuania), 2017-2019 (Estonia), 2019-2021 (Latvia). An overview of theoretical and applied research on the main approaches and models of managing the economic development strategy of these countries and their assessment is given. The review showed that the strategy of managing economic development at the national, regional and local levels requires an integrated approach to structural changes in the Baltic States. In the political aspect, it includes the consolidation of administrative-territorial units within countries and the correction of their roles, functions and interests. In the economic aspect – strengthening of investment and human resources to ensure integration processes. The presented results show that in the Baltic States, there is a significant differentiation in communications between the power elites of the vertical and horizontal levels of economic management. This is reflected in the disparity of the socio-economic development of the Baltic States. Bridging the gap is possible through a strong public organization of an intermediate level to manage the balanced economic development of these countries. There is a need for active interaction of public authorities at all three levels of government: national, regional and local, in the interests of a single goal: to promote the uniform and long-term economic development of the Baltic States.

**Keywords:** Baltic States, models of management strategies, economy and development policy, differentiation of development, local governments.

**РАЗЛИЧИЯ В УПРАВЛЕНИИ СОЦИАЛЬНО-ЭКОНОМИЧЕСКИМ РАЗВИТИЕМ В СТРАНАХ БАЛТИИ:  
УРОВНИ, ПОДХОДЫ И МОДЕЛИ**

Научная статья

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**Аннотация**

Рассматриваются теоретические и прикладные аспекты долгосрочного управления пространственным развитием государств Балтии (Латвия, Литва, Эстония) на трех уровнях управления: национальном, региональном и местном в рамках интеграционных процессов развития и административно-территориальных реформ в 2009 году (Литва), 2017-2019 годах (Эстония), 2019-2021 (Латвия). Дан обзор теоретических и прикладных исследований по основным подходам и моделям управления стратегией экономического развития этих стран и их оценка. Обзор показал, что стратегия управления экономическим развитием на национальном, региональном и местном уровнях требует комплексного подхода к структурным изменениям в странах Балтии. В политическом аспекте это включает в себя консолидацию административно-территориальных единиц внутри стран и корректировку их ролей, функций и интересов. В экономическом аспекте – укрепление инвестиционных и людских ресурсов для обеспечения интеграционных процессов. Представленные результаты показывают, что в странах Балтии существует значительная дифференциация в коммуникациях между властными элитами вертикального и горизонтального уровней управления экономикой. Это отражается в неравенстве социально-экономического развития стран Балтии. Преодолеть этот разрыв возможно с помощью сильной общественной организации среднего уровня, которая будет управлять сбалансированным экономическим развитием этих стран. Существует необходимость в активном взаимодействии органов государственной власти на всех трех уровнях управления: национальном, региональном и местном, в интересах достижения единой цели: содействия равномерному и долгосрочному экономическому развитию стран Балтии.

**Ключевые слова:** Страны Балтии, модели стратегий управления, экономика и политика развития, дифференциация развития, местные органы власти.

**Introduction**

The Baltic States that are members of the EU plan to achieve the goals of sustainable economic development at the national, regional, and local levels by 2030. The set of seventeen targets developed by the UN for the countries of the world in 2015 includes various socio-economic parameters from the eradication of poverty and sustainable development of cities and

settlements to the formation of a common strategy for such development [1], [4]. This opportunity has two bases: political and economic. *Political* – the need to actively promote the interaction of public authorities at three levels of government: national, regional and local, in the interests of a single purpose: to promote uniform and long-term economic development of the country. *Economic* – the predominant presence of high expenditure obligations with low budgetary provision of local governments for the development, especially of small towns and rural settlements.

The purpose of the work is to identify socio-economic, managerial, socio-cultural factors that contribute to the balanced territorial and spatial development of the Baltic States.

The strategy of State management of the process of achieving the goals of sustainable economic development in the Baltic States testifies to the growing external and internal pressure on the executive power in developing approaches to effective models of relations between central and local authorities to increase the degree of stability and sustainable development of these countries. This is also facilitated by a certain discrepancy between the requirements of EU legislation and the informal institutions and social practices operating in the Baltic States, which are deeply rooted in cultural traditions and historical heritage. These informal institutions and traditions have resistance to imposed changes, which, to a certain extent, limits and slows down the integration of spatial development and management processes in them, especially at the level of local governments. The researchers also note the importance of the personnel problem in ensuring a balanced strategy for managing the spatial development of the surveyed countries, their regions, and local governments [3], [4], [9]. There is a particular shortage of qualified specialists at the lower levels of government: financial analysts for long-term investment planning and management, information technology specialists, qualified specialists in social work, education, medicine, and more.

The experience of implementing spatial development programs to reduce differences in the socio-economic development of regions, cities, rural settlements of Latvia, Lithuania, Estonia over the past decade has been tested in the works of researchers [6], [10], [11]. The results of these and other theoretical and applied studies show that the market does not solve all the issues of leveling the development of regions, especially small territories in the surveyed countries, where non-market socio-economic measures and methods are also needed.

The mechanism of executive coordination of the economic development strategy of the Baltic States should take into account two groups of factors: external (actions and interests of the EU) and internal (national, regional and local interests). The Baltic States demonstrate different approaches to the strategy of managing their development within the EU: Latvia and Lithuania are predominantly decentralized, Estonia is selectively decentralized [9, P. 121-190].

### **Research methods and principles**

The research is based on general scientific methods, interdisciplinary, complex typological approach and modeling of management of socio-economic, socio-cultural development of the Baltic States. The work is of a theoretical and applied nature, it uses quantitative, statistical research methods: data from Eurostat, state statistics, data from administrative and territorial reforms in 2009 (Lithuania), 2017-2019 (Estonia), 2019-2021 (Latvia), secondary economic and sociological studies.

### **Results and discussion**

Representatives of the central political and managerial elite of Latvia and Lithuania are well-consolidated, especially business representatives, of whom 1/3 are in this elite, and take an active part in the work of the legislative and executive authorities of the EU in the following areas: agriculture, energy, environmental protection, budget policy. The latter is because the EU structural funds: ESF, ERDF, ELFLA, ELGF, EJZF are one of the important tools for the development of local governments and achieving 75% of the EU average income level for their residents. In the Baltic States, self-governments perform many functions and the larger the level of self-government in terms of resources, the better the local population lives. The Estonian government is trying to build its constructive and pragmatic image in the EU: saying little, but if necessary presenting well-thought-out and prepared positions and proposals. The decentralization of public administration in the country allows line ministries to have their permanent representations in the EU, which have the authority to negotiate on behalf of their ministries. Estonia actively participates in the work of EU legislative and executive bodies: creation of a common EU electronic market, energy, environmental protection, budget policy.

Researchers have identified two main models of vertical management of the strategy of balanced economic development of the EU countries [3, P. 35]. They reflect the specifics of relations between the central government and local governments, based on the cultural and historical development of the EU member states. In the western and northern EU countries (Denmark, Norway, Sweden and some others), a *dualistic model* of relatively independent spheres of relations between central and local authorities has been formed. This is a model of the balance of power between the central government and local communities when choosing forms, conditions of taxation by local authorities, and more. The central and Eastern European countries (Germany, the Baltic States and some others), are more characterized by a fusion model of relations between central and local authorities. This is a model of interaction that provides local power elites with direct access to the institutions and policies of the central government. The power elites of the Baltic States have concentrated in their hands the development of regional and local potentials due to limited investment resources. Therefore, they were unable to create a sufficiently strong intermediate-level organization (*regional* in Latvia, *county* in Lithuania and Estonia), acting as an integrating center for regional development, unifying and coordinating the efforts of various active entities by their nature: representatives of executive and legislative authorities, small and medium-sized businesses, representatives of civil society. This kind of organization is able to ensure a balance of power (equal partnership) between the center and local governments: the implementation of state policy at the local level and the consideration of local interests in the development of national policy. This can increase both the level of fiscal independence and the level of vertical influence of local governments. Currently, the Baltic countries show weak potential in these positions: the index of fiscal autonomy (independence) in Latvia is 16 out of 100 units, in Lithuania and Estonia 32; The index of the vertical influence of local governments in Lithuania and Estonia is 33 out of 100 units, only in Latvia it is noticeably higher – 67 [8, P. 67].

*Budgets of local governments and their role in the system of economic development in the Baltic States.* It is typical for the Baltic States that the finances of all local self-government bodies (by income) account for one-third (29-31%) of the central government budget [7]. Within the available resources, local governments provide and develop local infrastructure, access to health care, education from preschool to general secondary, as well as the availability of other services (social transport, home care, etc.). Considering the structure of income and expenses in the Baltic States, as well as the situation on average in the EU, it is possible to note differences in their structure for 2019 according to Eurostat [2]. For example, they are dominated by different main sources of income (table 1) [7, P. 4].

Table 1 - Structure of local government source of revenue in 2019

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Types of income	EU-27, % of GDP	Latvia, % of GDP	Lithuania, % of GDP	Estonia, % of GDP
Income tax, real estate tax, personal income tax and other	2.0	3.9	-	-
Income from fees, paid services	1.5	0.6	0.4	0.6
Current transfers received	4.1	3.3	7.8	6.4
Capital transfers received	0.7	0.3	-	0.5
Other income	0.4	-	0.1	0.1
Total	8.7	8.1	8.3	7.6

The budgets of local governments depend on the received tax payments of the population. Also, a significant part of the income is made up of current transfers received from the state budget to enable the implementation of functions delegated by the state, mainly in the field of education and transport, as well as capital transfers received through projects of various EU structural funds. Part of it is the income from paid services, fees, rental of property, local authorities. The current expenses of local authorities in the Baltic States account for 22-24% of public expenditures, but local tax revenues compensate for less than 1% of the costs. Borrowed resources can also finance expenses, namely, the implementation of infrastructure investment projects. The breakdown of expenses by economic category is presented in table 2 [7, P. 5]. In the Baltic States, most of the resources of local governments are spent on education, and they exceed the EU average (table 3) [7, P. 6]. Another situation is observed in health care expenses, where the level of local government expenses in Latvia is lower than in Lithuania, Estonia and the EU average. Expenses on general public services in the Baltic States is much lower than the EU average.

Table 2 - Income structure of local governments by economic categories in 2019

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Types of expenses by economic categories	EU-27, % of GDP	Latvia, % of GDP	Lithuania, % of GDP	Estonia, % of GDP
Intermediate consumption (payment for goods and services)	2.3	2.6	1.4	2.7
Remuneration (payments to teachers, civil servants)	3.5	4.4	5.6	3.1
Interest expenses	0.2	0.1	-	0.2
Subsidies	0.3	-	-	0.3
Social benefits and benefits	1.5	0.4	1.3	0.5
Formation of fixed capital or investments	1.6	0.7	0.4	1.3
Other expenses	1.2	1.3	0.2	0.5

Total	10.6	9.5	8.9	8.6
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In 2021, the share of income from personal income tax between local municipalities and the state has changed: 75% / 25% (until 2021 the proportion was 80% / 20%). To compensate for the decrease in local government revenues, the condition for co-financing local government budgets has been reduced from 25% to 15% of the total project cost, and for investment projects in educational institutions it is set even lower: 10%.

Table 3 - Expenditures of local governments by sector in 2019

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Types of expenditures by sector	EU-27, % of GDP	Latvia, % of GDP	Lithuania, % of GDP	Estonia, % of GDP
General public services	1.7	0.7	0.5	0.7
Public order and security	0.3	0.2	0.1	-
Economic activity, including transport	1.4	1.3	0.8	1.4
Environmental protection	0.6	0.2	0.3	0.3
Land and housing management	0.4	1.1	0.4	0.3
Health	1.7	1.0	1.5	1.4
Recreation, culture, religion	0.6	1.0	0.5	0.9
Education	1.6	4.1	3.0	3.8
Social protection	2.4	1.1	0.9	0.7
Total	10.7	10.7	8.0	9.5

### Conclusion

The experience of the Baltic States demonstrates that an integration strategy for managing the socio-economic development of a modern state can be achieved on the basis of a balanced division of powers and interaction of central, regional, and local public authorities vertically and horizontally. The necessity of achieving sustainable investment potential for economic development at regional and local levels of management is shown. Such potential is formed because of various factors: a strong public organization of the intermediate level, expansion of sources of financing because of budgetary and tax preferences of the central government, increasing prospects for access to EU programs and structural funds. A fusion model of relations between central and local authorities in the Baltic States can also contribute to integration in economic development.

### Конфликт интересов

Не указан.

### Рецензия

Все статьи проходят рецензирование. Но рецензент или автор статьи предпочли не публиковать рецензию к этой статье в открытом доступе. Рецензия может быть предоставлена компетентным органам по запросу.

### Conflict of Interest

None declared.

### Review

All articles are peer-reviewed. But the reviewer or the author of the article chose not to publish a review of this article in the public domain. The review can be provided to the competent authorities upon request.

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