

Territorial Aspects of the Institutional Transformation of Fiscal System

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Abstract

The institutional restrictions existing in Russia in development of the budgetary system at national and regional levels were analyzed in the article. These are risks of political instability, problems relating to territorial imbalance and disorder of legislation framework regulating interbudgetary relations. Institutional transformation of budgetary and tax system in Russia and the Republic of Tatarstan were examined through the prism of China's experience, as well as the number of OECD countries, including the USA.

Keywords: fiscal system, budgetary federalism, institutional transformation, territorial differentiation, interbudgetary transfers, taxes.

1. Introduction

The budget system of any state reflects the legal, socio - economic and other characteristics of the country. The condition of inter-budgetary relations is more affected by specific features of the country than by a constitutional state system (unitary or federal). It is believed that the countries with a unitary state structure usually have a two-tiered budget system: state and local budgets, and the countries with a federal structure: a three-tiered system – with regional budgets (states, provinces, cantons, etc.) The standard budget methodology OECD (Organization for Economic Cooperation and Development) is focused on the three levels of authority of the state and accordingly on the three levels of budgets and budgetary authority [1, 3, 8].

The first one involves a detailed legislative assignment of jurisdiction either to the federal state or to regions. This level is effective on condition that both a stable legal system and a strong federal government coexist. The Federations of North America and Western Europe adhere to this first level. A detailed stratification of the competence of the subjects is not required in the second variant which is widely distributed in the federal states of Latin America. Russia and India adhere to the third level which is the most difficult and based on the delimitation of competence in the areas: the exclusive competence of the Federation, the sphere of joint jurisdiction and exclusive competence of subordinate entities of the Federation. The last variant reflects the depth of contradictions in the historical development of states.

2. Theory

The reform of the budget system of the Russian Federation in the early 1990s was directed to its certain decentralization and the growing role of regional budgets.

Thus, the share of income in the consolidated regional (total) budget of the Russian Federation exceeded for the first time the share of federal revenues in 1993; in 1994 it was 51.1%. In the U.S an analogous parameter is 54.6%, in Canada - 67.4%, Switzerland - 61.1%. For comparison, in Germany this is 42.6%, in Australia - 46.4% [1, p.36]. Modern structure of Russian regions' income is depicted on Fig. 1.

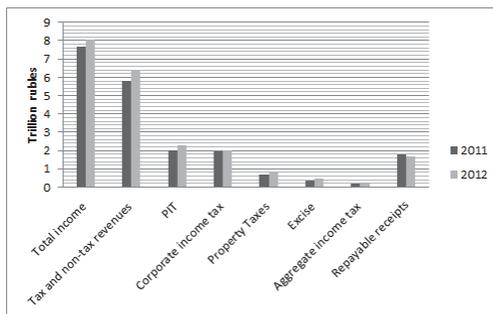


Fig 1. Volume and structure of income budgets of Russian regions, trillion rubles

The main problem in 2013 was the problem destabilize Russian regional budgets. In last year, revenues of the consolidated regional budget (the sum of regional and municipal budgets) grew by only 1% over the same period of the previous year (Fig.2). But it is not adjusted for inflation, which in 2013 amounted to 6.5%. Revenue growth - the lowest since 2010 [4, 6, 9].

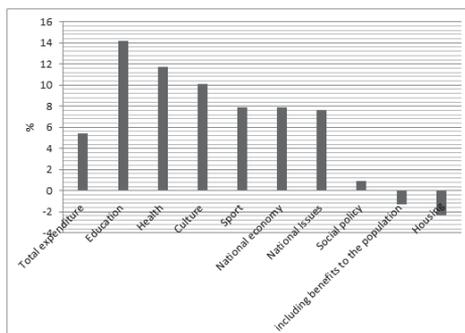


Fig 2. The dynamics of the regional budget expenditures in 2013 compared to 2012

The practice of prolonged use of shared federal-territorial taxation in Russia (income tax, personal income tax, value-added tax, excise duties) indicates the control of the Federal Center and limitations of territorial independence [12].

Fiscal federalism expresses the relationship of the government authorities in the budget rights and powers at all stages of the budget process.

Since 2007 the level estimating the budget security of the Russian Federation prior to the distribution of grants has been determined by the formula (1):

(1),

BS_i - level estimated budget security of the Russia to the distribution of grants;

ITP_i - index of tax potential of the Russian Federation;

IBE_i - budgetary expenditures index subject of the Russian Federation.

The allocation formula of aid is widely used by many countries (France, Australia, Indonesia, India and others). In contrast to Russia, where the criterion is the average per capita fiscal revenue, in the Philippines, for example, the equalization formula includes such criteria as population and territory, in France - the number of students, kilometers of roads etc. In the Russian Federation it was offered to expand the number of options being taken into account.

Since the 1990s many OECD countries have adopted fiscal rules. After the adoption of these rules, the ratio of social transfers to government consumption substantially declined; following the global economic crisis it was recovered. The negative effect of fiscal rules on the social transfers to the government consumption ratio is particularly evident in countries with relatively weak legal protection of social rights [1].

It should be mentioned the following fact: out of 89 subjects of Federation that existed in the 90s (currently 83; Table 1) the absolute majority of transfers were received.

Table 1: Dynamics of the Russian administrative-territorial division

	Territorial units	1999	2014
1	Republic	21	21
2	Edge	6	9
3	Region	49	46
4	Federal city	2	2
5	Autonomous region	1	1
6	Autonomous district	10	4

This situation, in our opinion, indicates that from the very beginning the transfer system was not the financial assistance, as it is common throughout the world, but a modernized form of redistribution of financial resources. The vicious practice of bargaining and knocking out the budget has been preserved, including the officially scheduled income transfers.

The decentralized (American) model of fiscal federalism is more liberal. [2] Russia with its tradition of a strong centralized state is closer to cooperative (European) model. It allows to transform gradually the budget system, saving the achieved conditions. Exactly such a model began to be formed in the Russian Federation.

Russia inherited from USSR the budget system with the traditions of a unitary state. An American researcher turns attention from the noisy battles over stabilization and privatization during the 1990s to subsequent reforms that have to deal with the mundane details of pipes, wires, bureaucratic routines, and budgetary formulas that made up the Soviet social state. [3] It should be noted that a fiscal decentralization characterizes all countries embarking in the transition period of the command economy.

3. Results

«The special model» of the Republic of Tatarstan is reckoned from August 29, 1991, when the Supreme Soviet of the Republic adopted the Declaration of State Sovereignty. According to the Constitution of 1992 the Republic is a sovereign state, a subject of international law associated with the Russian Federation (since 1994 united with the Russian Federation). In spite of the laws of the Russian Federation, many regions (especially the national republics) using the weakness of the central government unilaterally appropriated the budget law (for example, a single-channel system of payments with the federal budget). The essence of the single-channel system consists in deposition of all income mobilized in the region firstly in the budget of the region wherefrom the higher budget is getting its share. The similar unique system has operated in China since 1988. The appropriation of budget rights allowed to finance additional social programs and save the subsidies for a wide range of consumer goods, and, in fact, was a part of the policy, which was named in the Republic of Tatarstan as «the politics of a gentle entry into the market».

In 1994 the agreement was signed between the governments of the Russian Federation and the Republic of Tatarstan "On the budgetary relations between the Russian Federation and the Republic of Tatarstan " for a term of five years in which the privileges were officially legalized as an annex to the treaty on power-sharing [4].

Competition in the regional intergovernmental fiscal relations with the Federal center resulted in the fact that almost three -quarters of federal funds came in the regions as mutual offsets and indirect subsidies while well-controlled standard methods of regulating of fiscal relations were not developed . The gap between the highest and lowest levels of average population's incomes in regions was increasing.

The regional standards of population living differed more than twice, and gross domestic product indicator per capita – 18 times! The "Rich" regions were distinguished by high specific weight of extracting and export branches; the "poor" ones were regions with the structure of economy in which prevailed the branches in crisis owing to the pursued financial stabilization by the policy of the Center. This is reduction of public expenditures (mainly the territories characterized by the high specific weight of military industrial complex, the light and textile industry; the average per capita income here did not reach the size of a living wage).

Consequently, the declared policy of horizontal alignment was not pursued and in the technique of horizontal alignment the factor of regional differentiation of monetary income was not practically considered from the beginning of reforms. Thereby Russia was getting similar to Nigeria where the formulas of distribution are changing almost annually.

In 1996-1997 in Russia was emerging the aspiration to step aside from a traditional "European" cooperative model with its joint taxes in favor of "fair" American (Draft Tax code). It was considered that it could put an end to "knocking-out" the privileges and subsequent impoverishment of territories that had been "poor" long time ago.

The carried-out analysis indicates the limited nature of financial technologies, ignoring the context of system

changes, the necessity of territorial and economic restructuring and the growth of economic self-sufficiency of the population. The standard model of a budgetary federalism assumes the assignment of a sufficient source of income to each level for ensuring a necessary independence of the territories.

If federalism is quite often considered as a phenomenon of a "vertical democracy", a local government which is functionally isolated is considered as a special (fourth) power. Municipal territories, by definition, are governed not by a state bureaucracy but by a concerned free population. The main distinctive feature and the main guarantee of self-government is electiveness.

Management is connected to rendering of services, and for its efficiency a public power is separated from society. Municipalities even called as "public corporations". Unlike the private corporations the activity of municipalities cannot exceed the limits strictly given by the law. Their basic rights are: introduction and collection of taxes; enforcement of the law and order; the right of a compulsory repayment of property. And also such the so-called facultative powers as ensuring leisure, service, etc.

In the USA the local authorities collect about a half of income within the borders of their power to impose taxes and fees. Another one third of income comes from the grants of higher budgets. Professor of economy J.Khivy believes that "the powers of local authorities in the sphere of taxation and collecting various payments correspond to obligations of local authorities for service to population" [5, 14].

The revenue decentralization has little influence on local government expenditures in modern China. The differences in the effects of expenditure and revenue decentralization can be attributed to the distortionary effects caused by the vertical fiscal imbalance and, thus, offer support to the importance of the common-pool problem at the county level of China's fiscal system. [6, 7].

It is possible to improve finance, to overcome the crisis of budgetary federalism model which is being formed by systematic modernization of the launched social and economic relations. For example, the following zones of faster growth due to natural benefits have been identified: principal agglomerations, key regions of raw materials export and certain maritime regions situated on the lines of export flows [9, 15]. Forming and the future of growth zones include more densely populated southern regions with well-developed infrastructure and large agglomerations of the inland regions of Russia.

4. Conclusions

The existing institutional restrictions keep the incentives of unproductive activity in the majority of federation subjects. The persons who are responsible for making decisions (businessmen) are always sensitive to expenses of reorganization of an institutional structure. The perception of the active personality at the adverse succession of events can incline one to search the benefits in the political sphere and to initiate a process of cardinal institutional changes. As a rule, institutional changes do not go beyond the borders outlined by negotiation force of interested parties.

Thus, the desired path of development of institutional changes cannot promote the decrease in expenses of economic and political transactions as well as a fast formation of effective markets.

Blocking achievement of effective conventions, the imbalance of power and society specified the process of formation of federal institutes. Concerned by the need of preservation of "the power vertical", the center exchanged willingly budgetary and imperious privileges for political loyalty, promoting the preservation of clan and corporate structures. Thus, there is a good reason to believe that the built "power vertical" can be considered as the informal institute of preservation of "status quo" in regions.

Since 1998 another reorganization of interbudgetary relations that was accompanied with lapsing from budgetary federalism principles has started. A payment standard of VAT into the budgets of subjects of federation fell from 25 to 15 percent. Since 2001 the republic of Tatarstan has begun to pay taxes in accordance with a general practice. Thus, the federal target program of social and economic development till 2006 was passed [10, 13]. The value of allocated funds in this program was about 63 billion rubles. The funds were mostly allocated in the form of transfer. In this regard it is worthy of notice the point of view: «the transfer is an efficient preventive measure against a local separatism». It is possible to agree that a local political elite considers a transfer as a privilege and it will not promote expansion of a tax base. But the Russian Federation is not Denmark, Tatarstan is not Faeroes. In our case transfer is not the encouragement mechanism of noncompetitiveness but element of political bargaining.

Analysis demonstrates that the vacuum in a national consent concerning a number of key questions about state construction is the main factor which expands the sphere of not efficient institutional legal regimes. The above-mentioned regimes are consolidating interregional inequality and the gap in the average per capita income of the population. The recognized leader of interregional differentiation is Moscow which concentrates government, international exchanges and

financial resources. The other territories which are mostly the budgetary recipients are being ranged according to their opportunities in the export of raw materials and a political weight [11]. A low solvent demand in depressed regions has become the main multiplier of further strengthening of interregional inequality.

As a rule, analysis of interbudgetary relations and institutional saturation of a territorial organization demonstrates absence of game rules, their inconstancy, and, as a result, we have a low level of legal culture. The same situation occurred in the past when systems of coordination were considerably changing. There can be more serious reasons hiding behind all of this. There can be not enough all resources in the world to use for achieving the average development density of the Russian Federation territory and saturation of its spaces till the level of Europe Union in the foreseeable future. The spaces are considered as organization of a territory, its infrastructure, in other words, that is all set of relations, institutes and mechanisms that become firmly established on the territory and testify the development level. The Internet, the World Trade Organization, the International Monetary Fund are the examples of global spaces. Destructive phenomena connected to dissolution of the USSR testify the unsuccessful attempt of spatial development of the territory.

Today the goal has been set for the government: to develop tendency of the efficient power division at a local level before 2020. To follow the strategic priorities the principle of personification which is characteristic for Russia is expedient to use. The personified management is actual in the USA in big municipal subjects which are characterized by considerable differentiation of population and elite.

At the same time a great interest is caused by the territories of a public self-government (TPSG) which have appeared recently and represent not legal entities. TPSG short experience needs in scrupulous analysis and assessment as an example of partnership in the public sphere.

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