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Fiscal Federalism and Financial Resources for Regional Development – Co-operative and Competitive Models The International Experience – An Example for Russia?

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Fiscal Federalism and Financial Resources for Regional Development – Co-operative and Competitive Models

The International Experience – An Example for Russia?*

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Abstract

In Western economies, the concrete design of fiscal federalism is determined by the status the federation grants to regionally comparable economic and social conditions, and to what extent this status is anchored in the constitution. If the political and social acceptance of regional differences is high, the significance of regional equalisation is low and vice versa. In the case of great regional differences fiscal equalisation could be overburdened by the task of reducing fiscal strength. Moreover, if the political and social acceptance is lacking, regional policy interventions of the federal level is appropriate to support the regional economic convergence rather than fiscal equalisation. However, in high-performing economies organized as federations, comparably weak institutions such as those in Russia are largely unknown. In this sense, international experience makes it clear that strong and well-designed institutional arrangements between the different governmental levels are an important precondition for a high-performing fiscal system. In other words, to take advantage of the potential efficiency gains offered by fiscal federalism, the vertical co-ordination of revenue and expenditure responsibilities between the different governmental levels should be clarified. Problems of destruction and enforcement should be eliminated and replaced by harmonization and co-operation.

Key Words: Fiscal federalism, Russia, regional policy, fiscal equalisation, tax policy

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International Experiences of Fiscal Federalism (Bernhard Seidel)

The conditions for fiscal federalism

1. Regional governments forming a federation have their own rationale: on the one hand, they want to fulfil the desire to be under a common central government, on the other hand, they want to act independently to meet the individual needs of their region. One important question is: what division of responsibilities does this give rise to at the various regional and local government levels, and how are the relationships among the regional governments structured? The theory of fiscal federalism has occupied itself with the question of what division of responsibilities is optimal. The states whose governmental structures have a federal character have put many varieties into practice, ranging from strictly competition-oriented federalism to the co-operative model, and the experiences with these differ widely.
2. To organise a state as a federation, adequate institutional capacities and economic resources are needed. First, comparable social and political institutions are required at the different levels so that the necessary co-ordination can be ensured. Also, the system cannot be dominated by individual large and economically strong regions. Not least of all, there must be enough total financial strength at all regional government levels – that is, also within the local governments – to finance the necessary government authorities.
3. Economic rationality clearly speaks in favour of a federally structured government: the most extensive possible decentralisation of political leadership is best able to ensure that the supply of government services matches regional needs and that these services are therefore also provided in a regionally-appropriate variety. The reason for this is, first of all, that the local government authorities possess better information on the preferences of their residents. Also, the residents themselves can better express their preferences at the local level. Beyond this, the voter interests are less ‘bundled’ at the local level than at the national level, making voter preferences more easily recognisable. Insofar as residents are mobile – they as voters determine the regional government – they can ‘vote with their feet’ when their needs are not being adequately taken into account in the political process. This compels the regions to compete over the extent and composition of the supply of public services and, at the same time, over the effective use of funds.
4. Of course, decentralisation has its limits. The most important limitation is presented by the existence of economies of scale in the supply of public goods. If individual regions cannot make use the advantages of size, there is much to be said for the cooperation between regions in providing such goods or, given a country-wide need, for the next-higher government level taking this responsibility. This is similarly true where externalities occur in the costs or benefits of the public supply, that is, where the users cannot be limited to the group of those financing the supply, or inversely, where others who do not use the supply nevertheless are forced to finance it (environmental services are a relevant example). Member states are also not the most expedient level for carrying out measures of economic stabilisation: because of their close economic interrelationships with their neighbours, they are, on the one hand, highly dependent on their neighbours’ development, and on the other hand, unable to react to external shocks with financial policy measures that could affect other regions. Even for individual nations within the European Union, their own solo attempts at stabilisation have in the past proven to be less than promising. This is particularly due to the fact that the unified monetary policy in the currency area – of the individual nation as well as of the European Union – limits the effectiveness of financial policy measures. Here, too, a coordinated approach is needed. Finally, the possibilities of the member states are limited in putting measures for income re-

distribution into effect. This is because lower-income social strata are more likely to prefer regions that have set as a goal the reduction of income inequality, while those that earn more are more likely to avoid these regions. Here too, there is a need for supra-regional consensus, or rather, for responsibility to be taken at the level of the country as a whole instead of at the level of individual member states.

Principles of fiscal federalism

5. Regarding the system of fiscal federalism, several significant principles can be drawn from the discussion. Among the most important is the principle of subsidiarity. According to this principle, every governmental task should be carried out at the most decentralised level possible, and agreement should be reached between the group of beneficiaries and those who make the decisions on the particular task at hand. The principle of connectivity should also be observed: according to this principle, the decision-making power should lie with the group that carries the financial burden. This principle would be violated if, for example, the federal parliament made decisions for the federation on a unified social law that would entail financial burdens for the member states or their municipalities. One aspect of the (limited) financial sovereignty of the member states is the authority to structure their own revenues: that is, taxation authority.
6. There are a multitude of opposing arguments in the theoretical literature on the advantages and disadvantages of fiscal competition among member states. The critical perspective suggests that tax competition, which has to be designed to attract mobile production factors to the region, leads to a reduction of tax rates and ultimately to a regional level of revenue that is not adequate to finance a commensurate level of government services. Beyond this, there is a tendency to orient services more towards the needs of the mobile factors, that is, towards capital and highly-qualified labour. This results in an oversupply of business-oriented infrastructure at the expense of a private household-oriented supply of government services. From this, the conclusion is drawn that tax competition does not necessarily lead to an improvement in efficiency and that it would be better for tax policy to be left to central authorities. In objection to this, however, it is argued that political decision-makers neither perform their duties free of personal interests, nor see it as their role to be committed to efficiency. In a model that demonstrates a clear relation to reality and in which politicians are dedicated not first and foremost to maximising the social welfare but rather, to their securing their own re-election, fiscal competition can certainly provide the necessary restraint for the government's tendency towards the leviathan.
7. In a federal system characterised by the division of responsibility for government tasks among the various government levels, there are clear reasons for making transfer payments among the levels. First, these can serve the purpose of supporting regions that are poorly situated financially, either through payments by well situated regions, or through payments from the federation. From the federal perspective, this enables all regions to fulfil their constitutionally-based public responsibilities. This can take place by way of non-committed transfer payments. This can also secure for all residents of the federation a basic level of economic existence (cultural minimum living wage) and guarantee them specific social rights. The most adequate way of doing this is by means of transfers that are bound to a specifically defined use of funds.
8. There are, however, economic reasons for making grants among the local levels of government. Prosperous regions have a locational advantage and attract businesses and human resources. This is due first of all to the better provision of infrastructure. But it is also due to

management advantages for the businesses, which can communicate better with one another and with government authorities in a ‘corporate community’. If a regional concentration in the spatial distribution of the labour force (and residents) results from this, costs of agglomeration will arise. This is because, in the agglomeration area, the demands on the infrastructure which is to be provided increase, and bottlenecks occur, which can only in part be remedied by further developing the existing infrastructure. The traffic and environmental problems connected to agglomeration are particularly difficult to solve. Conversely, a minimal level of infrastructure and spatial development must be ensured in the sparsely populated areas, resulting in higher costs on the whole in comparison to a more well-balanced distribution of productive capacities.

9. Inter-state transfers can aid in solving the problems of spatial spillovers that occur in the provision of public services, or in other words, the use of services by persons who do not contribute to their financing. Here, it is important that the funds paid by the regions using the services be earmarked, so as to ensure that the users are also the payers. Normally, this should lead to contractual arrangements between neighbouring regions, giving the transfers a horizontal character. But the higher governmental level can also have an interest in the services of a particular region, for example in the case of the region surrounding a capital city, which takes on functions that are intrinsically supra-regional and must be compensated accordingly.

Equalisation versus regional differences

10. The question remains open to what extent the principle of equality must be granted within the federation to people who are in comparable situations – also with regard to provision of public services – and who should be treated as similarly as possible with regard to the financing thereof. This would mean that for taxation, regional structuring possibilities would be restricted, and the level – but not necessarily the structure – of the government services offered should not be too different from region to region. However, if this principle of equality is given too much weight, the idea of competition between the local governments as a process of experimentation and as a stimulus toward greater efficiency would be largely devalued.
11. To take into account the need for equality of living standards and of the provision of public services, the real systems of fiscal federalism mostly have an element of fiscal equalisation. However, the extent and form thereof differ. Formal systems of financial equalisation are particularly extensive: in these systems, differences in fiscal strength between the member states are compensated by unmatching grants in specific amounts. Thus, in the end, transfers always take place from financially well-situated regions to financially poorly-situated regions. This can occur indirectly by way of vertical allotments, whereby the central government authority transfers part of its revenue to the more poorly-situated regions. In this case, as the revenue from taxes (a unified head tax is not a significant revenue source in modern tax systems) usually comes from economically strong areas, redistribution also takes place, instead of, as in the case of horizontal fiscal equalisation, the lower levels of governments carrying the responsibility for levelling the differences in financial strength. Grants-in-aid are another means of financial equalisation and are paid mostly from the federal government to the lower levels of governments. On the one hand, they can be paid for performance of important governmental functions in the national interest – for example, provision of social services – and thus supplement (local) self-generated funds. On the other hand, they can take the form of mixed financing for specific tasks, stipulating that regions also contribute matched funds. Particularly in this case, the redistribution effect is less certain, as the financially poorly situated regions could have problems raising the necessary funds. This is especially the case when it is not a

question of tasks that the local government is legally bound to carry out. Public investments are often among the tasks that are put on the back burner in the case of scarce funds.

12. Financial equalisation systems thus fulfil two different functions: on the one hand, they insure against asymmetrical effects of external shocks and against one-sided economic setbacks, which can result from the division of responsibilities between regions and their influence on regional economic structures. On the other hand, they fulfil the function of redistribution, lessening differences in financial strength that are caused by regional variations in economic performance. Whether and to what extent the system balances out differences depends not least of all on whether or not the constitution contains a demand for equal standards of living within the territory of the federation.
13. Systems of equalisation have one fundamental disadvantage: they can lead to moral hazard. This is because the equalisation of differences in fiscal strength reduces the incentive to support economic activities in the regions: the financially strong regions, which in the end must raise the funds for equalisation, are punished by confiscatory taxes and fees when economic success increases the gap between them and financially weaker regions. They are required to contribute a portion of their additional earnings to the equalisation fund. Conversely, the economically weak regions lose some of their claim to fiscal transfers when they increase their fiscal strength, and therefore do not get the full benefit of the additional income because some of the funds are lost to them at the same time. Thus, there is no incentive for financially weak regions to use transfers to improve their economic productivity and increase their financial clout. If transfers are used in this sense inappropriately, entitlement perpetuates itself, whereas it would otherwise slowly decline. In addition, there is the principal-agent problem: the federal level, as the principal, has to convince the regional level, as the agent, to disclose the information available in the region on government revenue as well as on potential financial strength. However, the regions have a clear interest, for strategic reasons, in representing their economic situation as worse than it actually is. In the case of economic strength, they make lower contributions to fiscal equalisation funds, and in the case of economic weakness, they can expect greater financial support than when they completely expose their financial situation. The acceptance of a fiscal equalisation system designed for redistribution therefore does not depend least of all on the trust of each of the regions to the others and to the centre. The greater the likelihood that individual member states or individual governmental levels are behaving strategically and are unwilling to reveal their true economic relationships, the less willingness exists on the part of regions to make appropriate contributions to the system.

Fiscal federalism and regional policy

14. There is an inherent tension between general fiscal equalisation and regional policy interventions, for which the centre is usually responsible in a federation. These interventions are designed to reduce regional differences in economic productivity and induce a spatial redistribution of resources. Regional policy can be viewed in this sense as a substitute for general fiscal equalisation. The more the differences in fiscal strength are equalised, the more the responsibility for support to underdeveloped regions is left to lower levels of governments. Conversely, a regional policy with a broad scope can help to reduce differences in fiscal power between the regions so that the potential need for fiscal equalisation between the local governments can be diminished. In contrast to fiscal equalisation, regional policy intervention is essentially focussed on the specific use of funds, usually for investment. If the funds are used for infrastructure, the financial potential of the member states is increased for their own investments, which in turn make the region more attractive to investment from the private sec-

tor. In the case of direct support of private sector investment, the support funds are intended to help to bridge locational disadvantages. In this way, the recipients' access to their monetary reserves is limited, while monitoring provides additional insurance that the funds are not used for other purposes. Earmarking is also one of the reasons for the fact that in the European Union, the support of individual regions is undertaken through regional structural policy but not through general fiscal equalisation. Of course, the regional support funds that regional governments receive can take the place of their own funds in these areas: therefore in the end – contrary to their intent – these funds actually only enlarge the financial scope of other governmental tasks. To prevent this, in the European Union, the strict additionality of European support funds is required and usage must be documented by the recipients. This documentation cannot be more than a formal description, and according to the practical experience of nominally increasing public budgets, when fiscal transfers also earmarked for regional policy are included, additional room to manoeuvre is gained for regional fiscal policy.

15. However, neither regional policy nor general fiscal equalisation is necessarily a constitutive element of a federation. Thus, the strictly competition-oriented systems of fiscal federalism can survive in part without any kind of targeted regional equalisation, while some cooperative systems have both elements of general fiscal equalisation as well as a supplementary regional policy. The decisive factor is how high a degree of regional diversity is accepted in a federative constitution and to what extent one counts on the member states to take responsibility for improving economic productivity and thereby overcoming possible fiscal weaknesses.

National models

16. While the model of competitive federalism is predominant in the USA, a wide-ranging cooperative federalism is the chosen form in Germany, with mixed forms existing in Canada and Switzerland. The quantitative comparison of aggregated fiscal policy indicators according to local and regional government levels does not, however, make the differences in systems immediately apparent. Comparison is impeded by the differences in organisation of the systems of social welfare: in some cases local governments take the responsibility for providing and financing it out of their general tax receipts, and in other cases, organisations of social welfare take most of the responsibility for retirement, health and unemployment insurance and have their own revenues at their disposal.
17. In regard to tax revenues, the federal level dominates in the USA, while in Germany, there is a balanced relation between the federal level and the member states. In Canada and Switzerland, the states' and local administrations are more heavily weighted. In the USA and Canada, the federal level relies above all on direct taxes, while in Germany and Switzerland, it relies more heavily on indirect taxes. It is striking that especially in the USA, federal level consumption is much higher than in any of the other countries under comparison. This may have to do with the United States' international role in defence. The volume of transfer payments of the national level to the subordinate local administrations shows only slight differences – in relation to gross domestic product – among these countries. The figure for the competitively-based model of the USA is with 3.7% only marginally smaller than that for Germany's cooperatively-based model, with 4.3%. Switzerland, which in Europe tends to represent a competitive model of federal organisation, even shows a somewhat higher volume of interstate transfers – 4.4% – while in Canada, these amount to approximately 3.5%. The qualities of each national system as regards regional equalisation cannot be seen in the volume of transfers

between the various local and regional administrative levels. Rather, it is essential to also look at how the transfers are earmarked.

18. In all of the federal systems compared here, the fiscal relationships are marked by the principle of subsidiarity and budgetary independence of the federal level and member states. The crucial differences are on the one hand, in the question of the targeted fiscal equalisation, and on the other hand, in tax policy. In the USA, an equalisation of fiscal strength between the states is not the express goal of interstate transfers. Thus, there is no horizontal fiscal equalisation between financially stronger states and financially weaker states. The vertical financial channels are also largely unrelated to the financial strength of the recipient state. Rather, fiscal differences often solidify due to transfers from the federal level: most of the time, the transfers are made under the condition that states and municipalities provide matching funds. In fact, states with a large taxable capacity also receive the largest transfers from the federal level. The level of expenditures of the states is, in this way, closely related to the states' own taxable capacities, which is evident in the higher expenditures for education, but also for social welfare, of prosperous states. In contrast, in Germany, horizontal and vertical transfers lead to an almost complete equalisation of differences in financial strength between the federal states. There are also common tasks here that are financed by both the federal government and the federal states co-operatively, but regional fiscal equalisation plays the predominant role in placing the states in a position to be able offer a comparative level of federal services. This has led to a high level of regional homogeneity in Germany, which presents a clear contrast to the widely varying levels of federal activity in the different states of the USA.
19. It is difficult to supply empirical evidence to demonstrate that – and to what extent – the competitive model is superior to the co-operative model or vice versa. This could be shown if the withdrawal effects in the financially strong regions that raise funds for transfers are higher with regard to the growth (or welfare) that they thereby miss out on than the impulses in the regions that receive the transfers. In less-developed areas, however, additional federal expenditures – for example in the provision of infrastructure – can induce higher growth than would be achieved in regions whose infrastructure is already well-developed. Studies show no clear results on this point.

Tax policy aspects

20. In the area of tax policy, Germany demonstrates a regional homogeneity that is not to be found in any other country. Tax legislation is to a large extent uniformly regulated at the federal level; only unimportant tax types such as local consumer and expenditure taxes fall under the legislative jurisdiction of the member states, while all other taxes are the responsibility of the federal level. The most important sources of revenue are shared taxes, the income from which is shared by the federal government and the member states. Also other taxes provide revenues which are under the sole authority of the individual levels.
21. In the USA, Canada and Switzerland, in contrast, there are no shared taxes. Each level has at its disposal its own taxes and also has the freedom and authority to design and administer these taxes. Federal income and corporate taxes are added to those of the member states, although even the tax base is not always defined in a uniform manner. While this does increase independence and reinforce the ideal of competition, a negative side effect is decreased transparency. This prompted Switzerland to harmonise the tax base with regard to personal income and profits and to limit regional competition to variations in tax rates. In Canada, on the other hand, the income taxes of the provinces are designed to be an addition to the federal tax and

thus, to be more comparable. In systems where taxation is not shared, attention should be paid to whether or not the local and regional administrations receive their fair share of the economic development. Revenue sources to which the individual local and regional administrations are referred should therefore be as similar as possible in their accessibility. Thus, taxes on resources, the basis for which differs widely among regions due to varying deposits of natural resource, are more appropriate as federal taxes than as member states' taxes.

- 22.** Shared taxes also have the advantage that all levels have an equal share in the revenue sources. This ensures that individual levels are not solely dependent on sources that fluctuate heavily during the business cycle. Nor are they left with tax sources that develop out of line with the overall economic progress or even dry up because of particular – for instance ecological – goals of economic policy. Moreover, the federation and its members have a common interest in developing and exploiting the revenue sources. However, with shared taxes, the question of regional allocation attains central importance. The reason for this is that the decisive criteria for taxes on income and revenue is their place of origin, and for consumer taxes, their regional use. The most important factor in payment of taxes is usually, however, the residence or headquarters of the tax-payer. Therefore, a mechanism of redistribution is needed that ensures a regionally appropriate allocation of tax revenues. For general consumer taxes, the population would appear to be such a mechanism. Special consumer taxes, on the other hand, are less appropriate as shared taxes than as federal taxes.
- 23.** Aside from the issue of how the authority for legislation and administration of revenues is organised, reasons of efficiency and simplification of administration present a strong argument for a unified tax administration within the federation. This would entail that the financial agencies of the subordinate local and regional administrations become active for the next higher level and would require mutual trust in the dependable collection of taxes and the just distribution of revenues as well as a system of mutual checks and control mechanisms. Thus, the local and regional tax agencies are visible for the tax-payer at the regional level, which makes auditing of tax-payers easier and discourages tax evasion.

Forms of Fiscal Federalism – The Case of Russia (Mechthild Schrooten)

The federal system was created with the intention of combining the different advantages which result from the greater and the lesser extent of nations.

(A. de Toqueville)

24. Russia became a sovereign state six months before the breakdown of the Soviet Union (June 20, 1991). Since then the Russian Federation has been organised as a three-tiered Federation with 89 federal subjects, a high number compared internationally: the USA is divided into 51 federal units, and the German system of fiscal federalism is based on 16 so-called “Bundesländer” or federal subjects (Seidel; Vesper 1999). The Russian federal subjects cannot be considered as a homogeneous bloc. On the one hand, the legal status of the federal entities differs, since 21 of these federal subjects have the status of a Republic, 11 that of an autonomous district or area, 49 that of an area and six that of a region. On the other hand, the 89 subjects of the Russian Federation are extremely heterogeneous not only concerning economic performance, but also in ethnic, religious, demographic, social structures and climatic conditions (Wallich 1994). As in other economies in Russia, the implementation of the federal system is nothing other than an attempt to achieve gains in efficiency by decentralization of governmental tasks. One important goal of fiscal federalism is to enable local governmental units to provide those public goods and services whose effects are limited to their jurisdiction (Oates 1999). The preferences for certain publicly offered goods such as education and health may vary from region to region. Since market mechanisms fail to measure preferences for public goods, in Russia, as in other economies, democracy is an important precondition for making fiscal federalism work.
25. The Russian constitution and three Federation Treaties (March 1992) fixed the relationship between the centre and the federal subjects. As required by the traditional normative theory of fiscal federalism (Oates 1972), in Russia the federal level is made responsible for providing public goods like defence, foreign policy, the establishment of foreign trade relations and macroeconomic stabilization. The normative theory declares the responsibility of the centre for these issues mainly by the absence of instruments at the lower governmental level adequate to fulfil those tasks (Oates 1999). According to the traditional theoretical approach of fiscal federalism in Russia, the federal level is in charge of the elaboration and implementation of federal programmes supporting the economic, political and social development – tasks which can be seen as instruments for income redistribution in favor of the poor. In addition, as stated by the constitution, all significant security and technical policy issues for the creation of a unified market are federal tasks (Konstitucija Rossijskoj Federacii Article 71). As a consequence, the Federation is responsible for the establishment and provision of a stable and well-functioning institutional framework for economic decisions. Since in Russia, as in other transformation economies, the implementation of a sound and well-performing market-based institutional framework is itself one major goal of the transition process, the quality of those public goods could be considered as an indicator for the stage and efficiency of the ongoing reform process.
26. According to the Constitution, the central administrative authorities are responsible for the delimitation of responsibilities between the Federation and the subordinate regional authorities. The responsibilities of the subordinate regional authorities are defined *ex negativo* (Article 73): All governmental tasks which are not explicitly granted to the Federation are accountable to the lower fiscal level (Article 73). The constitutional rulings leave it unclear as to how the different levels are weighted in the execution of joint responsibilities. Thus, in providing

public goods, there is a large amount of room to manoeuvre within the jurisdiction of each of the various levels (Bell 1998). This lays the basis for fiscal non-transparency and insecurity.

27. In Russia, the transfer of responsibilities to a subordinate level is not automatically accompanied by a respective broadening of revenues. The distribution of revenue responsibilities among the various federal levels is essentially laid out in the tax law. However, all high-revenue taxes are mainly shared with the subordinate regional authorities. The budgetary situation of the sub-federal level is therefore decisively influenced by the tax legislation decisions of the centre. The quotas according to which taxes are to be shared among the Federation and the subordinate regional authorities have been changed numerous times in the last several years – a new tax law is under preparation (Minfin). The room for the subordinate units in establishing tax rates and tax bases seems to be limited. However sub-federal units are enabled to create so-called extra-budgetary funds to which locally operating enterprises have to pay an amount which is fixed by the local government. One important attraction of extra-budgetary funds arises from the fact that they do not have to be shared within the federal level. Since they are outside the official budget system their existence increases the non-transparency of the budgetary sphere as a whole (Wallich 1994).
28. Fiscal federalism first of all analyses the vertical structure of the public sector. From a theoretical point of view, it can be easily shown that the quality of the “institutional and legal framework” and the design of “property rights” affect the performance of the economy as a whole. Consequently, institutions are defined rules of the economic game in a society (North 1990). Since investment is necessary for economic development and investment is eased by credit financing, the quality of the creditor protection as a part of the “institutional framework” has an important impact on the performance of the domestic financial market and therefore on the growth prospects (Pagano 1993). In order to analyze the Russian type of fiscal federalism it makes sense to distinguish between internal and external institutions. By definition, external institutions are those institutions whose non-compliance is sanctioned by the state, while the non-compliance of internal institutions is sanctioned by society.
29. Weak external institutions lower economic efficiency in federally, as well as in centrally organized systems – but in different ways and may have different margins. In a centralized economy, weak institutions may led to an unclear delimitation between governmental and private activities and responsibilities. In Russia, the main problems of fiscal federalism arise from the fact that the external institutions are weak, while “internal” or socially sanctioned institutions operate more efficiently even within the governmental sector. Russia suffers from the phenomenon that especially the vertical structures within the governmental sector, which are nothing more than the implemented system of fiscal federalism, are characterized by the enforcement problems of the centre in the case of non-compliance.
30. In Russia, the institutional weakness within the governmental sector is not only reflected in non-transparent tax and responsibility sharing mechanisms between the different federal levels, but also in the fact that the lower governmental units often do not act in the interests of the centre, as well as the lack of conflict-solving mechanisms in such cases. In fact, in Russia, major economic problems arise from the low quality of the centrally offered public good ‘institutional and legal framework’ in addition to the enormous enforcement problems of the centre. Incentives that operate within the ‘unofficial’ economy often are based on lower taxes and therefore form lower transaction costs for an individual agent. Governmental units’ incentives to operate on the basis of ‘unofficial’ principles may arise from the lack of a functioning sanction mechanism.
31. Furthermore, the budgetary sphere itself is affected by the existence of the ‘unofficial economy’ in several ways: first, unofficial transactions of the different governmental levels on the

expenditures side of the budget are mainly caused by non payment or postponed payment for wages and deliveries. Second, on the revenue side, the acceptance of barter and so-called offsets as tax payment or even voluntary tax exemptions, as well as tolerated tax arrears are symptoms of this phenomenon. These voluntary tax exemptions and tolerated tax arrears, which are widely distributed throughout Russia, can be considered as indirect subsidies to the same earmarked firms which are not reported in the budget. Third, regional governments are able to declare a tax exemption even for federal taxes due to enforcement problems of the centre, but also because of a lack of transparency. One key characteristic of the Russian economy is that the various governmental units are themselves in different ways heavily involved in these unofficial and partly hidden transactions, which are not reflected in the budget.

However, the performance of the implemented fiscal system strongly depends on the coordination and harmonization of the activities of the different governmental levels: in Russia, enforcement problems of the centre are mirrored by the extremely different budgetary situations at the federal and regional levels. It is symptomatic that the consolidated budget deficit was accumulated almost completely at the federal level, while the budgets of the federal subjects in the sum were balanced for a long period.

One major cause of this phenomenon is that all taxes are collected by subjects of the federation. Since local governmental units do not have access to the domestic or international financial market, incentives for non-shared taxes collected by the centre are high. One approach to counteract the implemented tax-sharing mechanism is to accept bartering, locally issued money or offsets as tax payment. In such cases, transfers to the higher federal level are nearly impossible, while local revenues increase. In this sense, high shares of in-kind revenues can be considered as an indicator or symptom of the fragile institutional framework and of the weak operation of vertical structures within the fiscal scheme. Consequently, in those cases, the tax sharing mechanism between the Federation and its subjects can hardly work.

32. Furthermore in terms of revenue sharing, Russia seems to be a highly decentralized economy with extraordinary weight given to the subnational level:

Table 1: Factual distribution of receipts and expenditures at the various budget levels¹⁾

	Federal level			Subordinate regional authorities		
	1997	1998	1999	1997	1998	1999
Revenues, total	48.2	47.4	51.1	51.8	52.6	48.9
Profit taxes	35.7	37.3	36.8	66.0	62.7	63.2
Personal income taxes	2.3	0.1	17.0	97.7	99.9	83.0
Excises	81.6	78.4	77.7	18.4	21.6	22.3
VAT	70.4	68.9	77.0	29.6	31.1	23.0
Tax on international trade	99.7	99.7	100.0	0.3	0.3	0.0
Capital revenues	48.0	33.3	29.8	52.0	66.7	70.2
Privatisation	80.2	86.9	-	19.8	13.1	-
Expenditures, total	44.3	49.8	48.1	55.7	50.2	51.9
Industry, energy, construction	60.2	59.3	54.6	39.8	40.7	45.4
Agriculture, fishing	31.8	19.4	25.4	68.2	80.6	74.6
Socio-cultural measures	22.8	25.1	23.3	77.2	77.9	76.7
Administration	34.9	35.1	31.9	65.1	64.9	68.1
Law Enforcement	76.6	73.8	74.5	23.4	26.2	25.5
Defence	100.0	100.0	100	-	-	

¹⁾ Before the fiscal equalisation.
Source: Social'no-ekonomičeskoe položenie Rossii. Authors' calculations.

33. Neither the Russian constitution, nor the Federation Treaties guarantee equal living conditions in the different Russian regions. However at the federal level there is a fiscal equalisation fund. As in Germany, in Russia, the VAT constitutes a starting point for financing fiscal equalisationⁱ or intergovernmental grants. Twenty-seven percentage points of these tax revenues are paid into the "fiscal equalisation fund" through which the tax revenues are distributed among the regions (DIW et. al. 1998). The grant paid to an individual region is the result of a complicated, annual process of re-negotiations. The decision concerning making grants to a region depends only partly on the calculated differences between the average and the regional per capita tax revenue. Furthermore, along with the "neediness" of the region, political factors play a role in the negotiations. Consequently, the fiscal equalisation fund cannot lead to equalisation. Moreover, since, in practice, intergovernmental grants reach only around one percent of GDP (Goskomstat) the federal subjects depend heavily on the local tax revenues to finance their fiscal activities.
34. In practice, the Russian fiscal system is based on a competitive approach between the centre and the subnational units, as well as among the subnational federal subjects. The consolidated budget, which reflects the budgetary activities of the centre and the sub-national units, reached a size of about 26 percent measured in revenues in 1999 (Table 2). The competition between the centre and the regions is not grounded on a sound competitive system but on the fact that the external institutions given by the law are so weak that in many cases they are replaced by internal arrangements. However the competition among the regions is based on the different endowment, as well as on the different ethnic and social conditions. Formally the corporate tax rate gives an important starting point for the competition among the regions: this tax consists of a 11% tax on profits payable to the federal budget and an additional regional tax rate which can reach at maximum 19%.

35. The tax rates and the obligatory payments to extrabudgetary funds differ significantly among the regions. The result of the system are enormous regional differences in per capita tax revenues, expenditures and deficit (Table 2).

**Table 2: Revenues, Expenditures and Surplus/Deficit of Regional Budgets
In USD per capita/ ranking of the federal subjects
1997**

Federal Subjects	Revenues	Expenditures	Surplus /Deficit	Revenues	Expenditures	Surplus /Deficit
				Ranking		
Moscow oblast	1100,4	1062,4	38,0	11	12	1
Nenets AO	1784,1	1774,9	9,2	6	8	2
Voronezh oblast	255,9	252,4	3,5	81	86	3
Krasnodar kray	283,5	286,8	-3,3	73	78	4
Samara oblast	512,7	516,5	-3,9	23	30	5
Republic of Bashkortostan	523,4	528,2	-4,8	22	27	6
Belgorod oblast	280,3	286,4	-6,1	75	79	7
Oryol oblast	420,7	428,1	-7,4	38	47	8
Ivanovo oblast	335,3	344,5	-9,2	57	69	9
Chelyabinsk oblast	390,4	401,0	-10,6	43	51	10
Sverdlovsk oblast	436,4	447,5	-11,0	34	41	11
Vladimir oblast	316,4	328,7	-12,4	65	73	12
Pskov oblast	328,3	341,1	-12,8	62	70	13
Stavropol kray	244,5	260,2	-15,6	83	83	14
Tambov oblast	266,6	282,2	-15,7	79	80	15
St. Petersburg	490,4	508,0	-17,6	26	33	16
Volgograd oblast	289,0	308,0	-19,0	70	77	17
Novgorod oblast	411,1	430,3	-19,2	39	45	18
Kursk oblast	340,1	359,4	-19,3	55	64	19
Taimyr AO	1744,9	1764,4	-19,5	7	9	20
Ryazan oblast	328,3	348,3	-20,0	63	68	21
Republic of Adygeya	328,4	348,7	-20,3	61	67	22
Tomsk oblast	643,1	664,9	-21,8	17	19	23
Perm oblast	457,7	479,9	-22,2	29	36	24
Republic of Chuvash	344,2	367,5	-23,3	51	60	25
Rostov oblast	229,6	253,1	-23,6	86	85	26
Penza oblast	229,6	253,6	-23,9	85	84	27
Bryansk oblast	206,5	232,1	-25,6	87	87	28
Republic of Tatarstan	904,1	929,8	-25,7	12	14	29
Moscow, City	423,4	449,9	-26,5	36	40	30
Smolensk oblast	253,9	281,5	-27,6	82	82	31
Republic of Karachayevo-Cherkessia	280,5	311,3	-30,8	74	76	32
Kirov oblast	301,2	334,4	-33,2	69	72	33
Kaluga oblast	329,1	365,2	-36,1	60	61	34
Lipetsk oblast	428,0	468,0	-40,0	35	37	35
Ust-Ordyn Buryat AO	309,5	350,1	-40,6	68	65	36
Republic of Kabardino-Balkaria	387,8	428,8	-41,0	44	46	37
Republic of North Osetia	341,4	384,7	-43,3	54	56	38
Khabarovsk kray	559,7	603,2	-43,4	20	22	39
Yaroslavl oblast	478,4	522,3	-43,9	28	29	40
Republic of Dagestan	237,7	281,7	-44,0	84	81	41

Table 2 (continued): Revenues, Expenditures and Surplus/Deficit of Regional Budgets

Tver oblast	315,1	360,5	-45,4	67	62	42
Leningrad oblast	343,1	389,0	-45,8	53	55	43
Kostroma oblast	585,9	632,1	-46,1	19	21	44
Republic of Udmurtia	482,1	528,3	-46,3	27	26	45
Republic of Mordovia	390,6	437,0	-46,4	42	43	46
Republic of Khakasia	373,6	421,5	-47,9	48	49	47
Kaliningrad oblast	336,2	384,3	-48,1	56	57	48
Republic of Ingushetia	182,3	231,3	-49,0	88	88	49
Amur oblast	500,0	550,5	-50,5	24	25	50
Vologda oblast	452,9	503,6	-50,6	30	34	51
Republic of Mary-El	271,4	323,6	-52,2	78	74	52
Orenburg oblast	368,6	421,5	-52,9	49	48	53
Altay kray	325,1	379,3	-54,2	64	58	54
Nizhniy Novgorod oblast	375,5	432,3	-56,8	47	44	55
Kurgan oblast	257,1	314,2	-57,1	80	75	56
Primorski kray	496,2	553,7	-57,5	25	24	57
Astrakhan oblast	333,7	392,9	-59,1	58	53	58
Republic of Chechnya	34,6	94,3	-59,7	89	89	59
Murmansk oblast	761,1	821,6	-60,5	14	16	60
Ulyanovsk oblast	288,1	349,1	-61,0	71	66	61
Republic of Altay	343,7	404,8	-61,1	52	50	62
Krasnoyarsk kray	591,4	652,9	-61,5	18	20	63
Novosibirsk oblast	382,2	444,7	-62,4	45	42	64
Arkhangelsk oblast	405,5	467,9	-62,4	40	38	65
Omsk oblast	452,8	515,8	-63,0	31	32	66
Komi-Permyak AO	274,8	340,3	-65,5	76	71	67
Irkutsk oblast	423,1	489,2	-66,1	37	35	68
Chita oblast	331,8	400,1	-68,2	59	52	69
Sakhalin oblast	756,5	827,8	-71,4	15	15	70
Tula oblast	287,9	360,2	-72,3	72	63	71
Saratov oblast	315,7	392,6	-76,9	66	54	72
Republic of Kalmykia	448,2	527,2	-79,0	33	28	73
Tyumen oblast	2452,7	2540,1	-87,5	5	6	74
Khanty-Mansi AO	3276,2	3364,1	-87,9	3	5	75
Aginski Buryat AO	272,9	369,2	-96,3	77	59	76
Republic of Buryatia	355,3	463,6	-108,3	50	39	77
Republic of Karelia	450,5	560,9	-110,4	32	23	78
Jewish autonomous oblast	400,0	515,8	-115,8	41	31	79
Kemerovo oblast	538,2	701,1	-162,9	21	18	80
Evenki AO	3511,7	3698,7	-187,0	2	3	81
Republic of Komi	755,2	944,9	-189,7	16	13	82
Yamalo-Nenets AO	4956,2	5146,5	-190,3	1	1	83
Magadan oblast	1674,2	1876,2	-201,9	9	7	84
Republic of Tyva	379,7	737,5	-357,8	46	17	85
Kamchatka oblast	903,4	1291,1	-387,7	13	11	86
Republic of Sakha (Yakutia)	1261,6	1691,0	-429,4	10	10	87
Chukotka auton. Okrug	3065,5	4045,7	-980,2	4	2	88
Koriak AO	1705,2	3516,0	-1810,8	8	4	89

Source: Goskomstat; authors' calculations.

In 1997 Moscow oblast - and not the city of Moscow - had the highest per capita surplus with 38 USD. At the same time per capita revenue in Moscow city (423 USD) was less than in St. Petersburg (490 USD). The figures show that the Yamalo-Nenets Autonomous Okrug collected more than ten times more per capita taxes (4956 USD) than, for example, the City of Moscow. At the same time per capita expenditures in Yamalo-Nenets Autonomous Okrug (5146,5 USD) were more than twelve times higher than in Moscow city (445 USD). The lowest per capita revenues, as well as the lowest per capita expenditures were reached in the Republic of Chechnya. However, according to the per capita deficit, the Republic of Chechnya ranked number 59 out of a total of 89.

36. One important source of the great differences in tax performance is the widely differing endowment of the regions with natural resources. The enormous regional disparities reflected on revenue side of the regional budgets can not be levelled out without substantial distributional conflicts between the different sub-national units. If one takes this fact into account it seems to make sense that fiscal equalisation is not an explicit goal of Russian fiscal policy. However, to reach a sufficient provision of some important public or merit goods on the sub-national level, the Federation uses regional policy instruments. Typically, the forms are conditioned, and match grants, where the federal contribution is some proportion of the total local expenditure on a specific public good. In the past, regional policy programs implying different forms of grants were focused on four regions: the North Caucasus, West-Siberia, East-Siberia and the Far East (Bell 1998). However, it seems to be confusing that regions such as West-Siberia, where the Yamalo-Nenets Autonomous Okrug with its immense *per capita* tax revenues is located, is on the list of the regional policy programs. But the rationale for this practice is that providing public goods under extreme climatic conditions such as those in Siberia leads to higher production costs and therefore to extreme expenditures.

However, financial resources for regional policy are as limited as those of the fiscal equalisation fund. Since the beginning of reforms, the Russian Federation has been confronted with low and, over a long period, even decreasing tax revenues. In 1999, the revenues of the federal budget were only about 14 percent of GDP (Table 4). The small scope of revenues of the federal budget limits the scope of financial engagement of the centre on regional policy *a priori*. Additionally, the relationship between the centre and the sub-national federal subjects is strongly characterized by asymmetric information regarding the *de facto* usage of the granted money. Monitoring and controlling the sub-national units is costly. Therefore regional policy programs suffer from the same systemic problems as fiscal federalism itself.

International experiences – An orientation for Russia?

(Bernhard Seidel / Mechthild Schrooten)

37. Western economies with a high performance such as the US, Germany and Switzerland are organized into federations. However the concrete design of fiscal federalism is determined by the status the federation grants to regional equalisation and the establishment of comparative economic and social conditions, and to what extent this status is anchored in the constitution. This in turn influences the importance placed on regional policy in the individual member states.
38. When there is a high level of political and social acceptance of regional differences among member states, the status of equalisation measures is naturally low. This is true not only for elements of fiscal equalisation in the design of budgets of the different local and regional ad-

ministrative levels, but also for regional policy as such. Regional economic development can then be left to regional competition without any need for intervention from the federal level. The relation among the various federal levels is defined by a subsidiary allocation of responsibilities, in which each level fulfils the responsibilities appropriate to it, and in which economies of scale, spillover effects and prevention of moral hazard are taken into consideration. Only when there is an overriding interest in the financial participation of the federal level are responsibilities fulfilled co-operatively.

- 39.** If the federation makes balanced regional development, equality of opportunity independent of regional origin, or spatial comparability of living standards a central element of its political objectives, fiscal equalisation and regional policy necessarily acquire a higher status. The interaction of these elements must be determined by the institutional structures, the financial potential, the political and social framework. This is also decisive for the acceptance of whichever model is chosen. Thus, in the European Union only regional structural policy was given central importance, not least of all because here, there is a lack of acceptance for general fiscal equalisation measures at least as long as the question remains open which form of state constitution – federal state or confederation of states – will ultimately be chosen as the model of the European Union, and until European political bodies attain a more firmly established democratic legitimation. Inversely, in Germany, the model of equalisation is predominant, with which the member states are placed in the position to provide to a largely comparable extent both the population and the economy with public goods and services. Regional policy, as a common task of the federation and the member states, has a supplementary function which addresses itself more to the smaller-scale equalisation of economic productivity and takes particular regional disadvantages into account through targeted support to investment. This model enjoyed a high level of acceptance for a long period of time. One reason for this was that the regional differences were minimal and therefore, only a limited financial volume was needed to equalise fiscal strength. This situation changed fundamentally with German reunification. East Germany's extremely under-performing economy is accompanied by a low taxable capacity. Bringing the financial strength of the federal states of the former East Germany up to the average level of Germany's federal states requires redistributing a much larger volume of funds and demanding much more money from the financially stronger states. This has led to the demand for a revision of the system, with the objective that the extent of equalisation be reduced in order to limit the negative incentives regarding the autonomous responsibility for and efficient utilisation of public funds.
- 40.** In Switzerland, on the other hand, varied programmes of mixed financing are responsible for the combination of fiscal equalisation and targeted compensation of regional disadvantages. Thus the federal level has attained an influence that is too great and does not correspond to the federal character Swiss constitution. Due to the existence of so many different programmes aimed at the regional level, the regional equalisation effect is ultimately not transparent, and individual programmes can even turn out to be mutually destructive. Decentralising the authority of different federal levels and reinforcing unconditional horizontal and vertical fiscal equalisation are proposals offered here to increase efficiency. An equalisation of fiscal strength at 87% of the national average, provided by horizontal and supplementary vertical financial allocations, would thereby be seen as acceptable.
- 41.** Insofar as regional equalisation is viewed as an important political task in federally structured countries, the experiences of the individual countries suggest that co-operative elements should be combined with competitive elements. In such a system, the principle of subsidiarity should be given central importance. This means that the authority for the various public tasks

should be assigned as far as possible to a single governmental level and that areas of responsibility should not overlap. At the same time, the member states should be placed in the position to meet fair competition. In addition, adequate financial resources are necessary. If this cannot be guaranteed out of the regions' own funds due to great differences in the economic productive capacities, a fiscal equalisation via horizontal and supplementary vertical transfer payments would be a thoroughly adequate solution. In such a system, the importance of federal level regional policy should be reduced.

- 42. If the regional differences in the federation are great and if the system of fiscal equalisation is therefore overburdened by the task of reducing differences in fiscal strength, or if the necessary political and social acceptance is lacking, regional policy intervention of the federal level is appropriate to support the regional convergence of economic development
- 43. However, in high-performing economies organized as federations, comparably weak institutions such as those in Russia are widely unknown. In this sense, international experience makes it clear that strong and well-designed institutional arrangements between the different governmental levels are an important precondition for a high-performing fiscal system. In other words, to take advantage of the potential efficiency gains offered by fiscal federalism, the vertical co-ordination of revenue and expenditure responsibilities between the different governmental levels should be clarified. Problems of destruction and enforcement should be eliminated and replaced by harmonization and co-operation. But the Russian form of fiscal federalism may change in the near future: In May 2000, President Vladimir Putin issued a decree (May 13, 2000) which compiled Russia's 89 federal subjects into seven administrative districts (Table 3) and it seems as though the Russian system of fiscal federalism may change.

Table 3: The Seven Administrative Districts

<p>DISTRICT: CENTRAL</p> <p>Belgorod oblast Bryansk oblast Ivanovo oblast Kaluga oblast Kostroma oblast Kursk oblast Lipetsk oblast Moscow oblast Moscow City</p>	<p>CENTRE: MOSCOW</p> <p>Orel oblast Ryazan oblast Smolensk oblast Tambov oblast Tula oblast Tver oblast Vladimir oblast Voronezh oblast Yaroslavl oblast</p>
<p>DISTRICT: NORTHWEST</p> <p>Republic of Karelia Republic of Komi Arkhangelsk oblast Kaliningrad oblast Leningrad oblast Murmansk oblast</p>	<p>CENTRE: ST. PETERSBURG</p> <p>Nenets Autonomous Okrug Novgorod oblast Pskov oblast St.Petersburg City Vologda oblast</p>

Table 3 (continued): The Seven Administrative Districts

DISTRICT: NORTH CAUCASUS Republic of Adygeya Chechen Republic Republic of Dagestan Republic of Ingushetia Kabardino-Balkarian Republic Republic of Kalmykia Republic of Karachai –Cherkessia	CENTRE: ROSTOV ON DON Republic of North Osetia Astrakhan oblast Krasnodar kray Rostov oblast Stavropol kray Volgograd oblast
DISTRICT: VOLGA Chuvashian Republic Republic of Bashkortostan Republic of Marii-El Republic of Mordovia Republic of Tatarstan Udmurtian Republic Kirov oblast Komi-Permyak Autonomous Okrug	CENTRE: NIZHNII NOVGOROD Nizhnii Novgorod oblast Orenburg oblast Penza oblast Perm oblast Samara oblast Saratov oblast Ulyanovsk oblast
DISTRICT: URAL Chelyabinsk oblast Khanty-Mansii Autonomous Okrug Kurgan oblast	CENTRE: YEKATERINBURG Sverdlovsk oblast Tyumen oblast Yamalo-Nenets Autonomous Okrug
DISTRICT: SIBERIA Republic of Altai Republic of Buryatia Republic of Khakassia Republic of Tuva Agin Buryat Autonomous Okrug Altai kray Chita oblast Evenk Autonomous Okrug	CENTRE: NOVOSIBIRSK Irkutsk oblast Kemerovo oblast Krasnoyarsk kray Novosibirsk oblast Omsk oblast Taimyr Autonomous Okrug Tomsk oblast Ust-Ordinskii Autonomous Okrug
DISTRICT: FAR EAST Republic of Sakha (Yakutia) Amur oblast Chukotka Autonomous Okrug Jewish Autonomous Oblast Kamchatka oblast	CENTRE: KHABAROVSK Khabarovsk kray Koryak Autonomous Okrug Magadan oblast Primorskii kray Sakhalin oblast

44. This decree affects not only on the federal structure, but also the decision making process within the Federation: the seven administrative districts will be headed by ‘presidential representatives’ who are directly accountable to the president and will ensure the compliance of each zone with decisions adopted by federal authorities (RFE/RF News). Moscow will be the ‘centre’ for the new Central district, St. Petersburg for the Northwest, Rostov-na-Donu for the North Caucasus, Nizhnii Novgorod for the Volga; Yekaterinburg for the Urals; Novosibirsk for Siberia; and Khabarovsk for the Far East (RFE/RLNewsline, 12/15 May 2000). It seems to be clear that one important aim of this reorganisation is the restoration of the vertical system of power and control within the governmental system.
45. Up to now it is unclear **how** the reform will in principle affect the current structure of Russia’s fiscal federalism. Therefore it is necessary to remember that fiscal federalism can only work efficiently on the basis of a democratic society, where voters have the implicit control over the government. The actual fiscal reform in Russia may affect the structures in the sense of in-

creased centralism. According to theoretical considerations as well empirical experiences, greater centralisation may not necessarily lead to the stronger institutions which are, in the case of Russia, the most important precondition not only for fiscal, but also for economic recovery. Until stronger institutions are implemented, Russian federalism will suffer heavily from the asymmetric information between the centre and the regions, as well as from high monitoring costs. These costs will not be lower in the case of regional policy programs. However international experiences show that if institutions are working well, in the case of immense regional disparities, regional policy programs are the best way to reach regional convergence and to support regional economic development.

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Consolidated Budget

	1992 ¹⁾	1993	1994	1995	1996	1997	1998	1999	1992 ¹⁾	1993	1994	1995	1996	1997	1998	1999
	in % of total revenues / total expenditures								in % of GDP							
Revenues, total	100	100	100	100	100	100	100	100	28,0	29,0	29,0	26,1	24,8	23,5	24,5	26,8
Profit taxes	29,4	33,8	27,5	27,0	17,3	15,8	14,7	18,4	8,2	9,8	8,0	7,0	4,3	3,7	3,6	4,9
Personal income taxes	8,1	8,8	9,9	8,4	10,1	11,6	10,8	9,8	2,3	2,6	2,9	2,2	2,5	2,7	2,7	2,6
Excises	4,0	3,6	4,2	5,6	9,6	10,3	10,3	9,1	1,1	1,0	1,2	1,5	2,4	2,4	2,5	2,4
VAT	37,5	22,5	21,0	22,0	25,8	26,5	23,8	24,0	10,5	6,5	6,1	5,7	6,4	6,2	5,8	6,4
Tax on international trade and transactions	8,8	4,7	10,8	4,6	3,0	1,1	2,4	2,9	2,5	1,4	3,1	1,2	0,7	0,3	0,6	0,8
Capital revenues	.	.	.	.	.	2,0	2,0	1,9	.	.	.	.	.	0,5	0,5	0,5
Privatization	.	.	.	.	.	1,8	2,7	.	.	.	.	.	.	0,4	0,7	.
Budgetary funds	.	.	.	.	.	.	.	8,1	.	.	.	.	.	.	.	2,2
Other	12,2	26,6	26,6	32,3	34,2	30,9	33,3	26,0	3,4	7,7	7,7	8,4	8,5	7,3	8,2	6,9
Expenditures, total	100	100	100	100	100	100	100	100	31,4	33,6	38,5	29,4	28,9	28,6	28,0	28,0
Economy	34,5	28,1	27,0	.	.	.	.	.	10,8	9,4	10,4	.	.	.	.	.
Industry, Energy, Construction	.	.	.	7,4	6,0	4,6	2,9	2,5	.	.	.	2,2	1,7	1,3	0,8	0,7
Agriculture, fishing	.	.	.	4,2	3,9	3,4	2,6	2,9	.	.	.	1,2	1,1	3,4	0,7	0,8
Transport, communication	.	.	.	2,7	.	2,8	2,5	2,1	.	.	.	0,8	.	0,8	0,7	0,6
Socio-cultural purposes	23,2	24,9	23,5	26,0	28,9	34,0	31,7	29,2	7,3	8,4	9,0	7,7	8,4	9,7	8,9	8,2
Education	.	.	.	11,6	.	.	.	.	.	.	.	3,4	.	.	.	.
Health	.	.	.	8,3	.	.	.	.	.	.	.	2,4	.	.	.	.
Social security	.	.	.	4,2	.	.	.	.	.	.	.	1,2	.	.	.	.
Defense	14,3	12,5	11,9	9,8	9,8	10,2	7,5	9,3	4,5	4,2	4,6	2,9	2,8	2,9	2,1	2,6
Administration, law enforcement	5,9	7,3	7,9	7,7	.	10,3	9,6	9,7	1,8	2,4	3,0	2,3	.	2,9	2,7	2,7
International Trade	7,0	4,8	2,1	4,4	4,1	.	.	.	2,2	1,6	0,8	1,3	1,2	.	.	.
Debt service	.	.	.	5,1	6,6	6,2	14,2	13,0	.	.	.	1,5	1,9	1,8	4,0	3,6
Environment protection	.	.	.	.	.	0,5	0,4	0,4	.	.	.	.	.	0,2	0,1	0,1
Budgetary Funds	.	.	.	.	.	.	.	7,4	.	.	.	.	.	.	.	2,1
Other	15,2	22,5	27,5	8,6	40,9	28,0	28,5	23,6	4,8	7,6	10,6	2,5	11,8	5,6	8,0	6,6
Overall balance in % of expenditures / GDP	-10,8	-13,8	-24,5	-11,2	-14,4	-18,0	-14,0	-4,3	-3,4	-4,6	-9,4	-3,3	-4,2	-5,1	-3,5	-1,2

1) In 1992 the volume of unreported fiscal activities was extraordinary high. Voprosy Ekonomiki, Nr. 1/1994, p. 42.

Sources: Goskomstat; Rosstat; author's calculations.

Federal Budget
Selected public revenues and expenditures

	1992	1993	1994	1995	1996	1997	1998	1999	1992	1993	1994	1995	1996	1997	1998	1999
	in % of total revenues / total expenditure								in % of GDP							
Revenues, total	100	100	100	100	100	100	100	100	15,8	14,5	13,1	15,1	13,2	13,7	11,3	13,7
Profit taxes	20,0	21,6	21,5	17,9	11,5	10,4	11,5	13,2	3,2	3,1	2,8	2,7	1,5	1,4	1,3	1,8
Personal income taxes			0,1	1,4	1,8	0,5	0,0	3,3			0,0	0,2	0,2	0,1	0,0	0,4
Excises	3,3	3,6	5,6	7,5	16,0	16,1	17,4	13,8	0,5	0,5	0,7	1,1	2,1	2,2	2,0	1,9
VAT	50,0	28,8	29,7	30,9	35,9	37,4	34,6	36,1	7,9	4,2	3,9	4,7	4,7	5,1	3,9	4,9
Tax on international trade and transactions								14,1								1,9
Payments for the use of natural resources								1,7								0,2
External economy							5,1	5,7							0,6	0,8
Revenues																
from state assets								1,1								0,2
from privatisation		0,4	0,1	2,1	0,3	5,5	5,0	0,0	0,0	0,1	0,0	0,3	0,0	0,7	0,6	0,0
Earmarked funds								9,0								1,2
Other	26,7	45,6	42,9	40,2	34,6	30,2	26,3	2,0	4,2	6,6	5,6	6,1	4,6	4,1	3,0	0,3
Expenditures, total	100	100	100	100	100	100	100	100	21,1	15,8	17,2	15,6	14,4	14,7	14,5	14,8
Economy	27,5	15,8	18,1	14,3	11,4	12,1	0,0	0,0	5,8	2,5	3,1	2,2	1,6	1,8	0,0	0,0
Industry, energy, construction							2,9	2,5							0,4	0,4
Agriculture, fishing							0,8	1,4							0,1	0,2
Transport, communication								0,2								0,0
Socio-cultural purposes	10,0	9,5	10,2	8,2	8,9	16,6	14,7	12,8	2,1	1,5	1,8	1,3	1,3	2,4	2,1	1,9
Defense	22,5	26,4	27,1	20,6	20,6	21,9	14,6	17,5	4,7	4,2	4,7	3,2	3,0	3,2	2,1	2,6
Administration, law enforcement	7,5	11,7	14,0	10,2	10,9	14,9	10,4	10,6	1,6	1,9	2,4	1,6	1,6	2,2	1,5	1,6
Debt service							27,4	24,5							4,0	3,6
Environment protection								0,4								0,1
Fiscal equalisation payments								9,3								
Other	32,5	36,6	30,7	46,7	48,1	34,6	29,2	20,9	6,8	5,8	5,3	7,3	7,0	5,1	4,2	4,5
Overall balance in % of expenditures / GDP	25,0	8,4	23,9	3,4	8,4	7,3	22,2	8,0	5,3	1,3	4,1	0,5	1,2	1,1	3,2	1,2

Sources: Goskomstat; Rosstat; author's calculations.