

The genesis of budgetary federalism and interbudgetary relation formation and development in the Russian Federation

La génesis del federalismo presupuestario y la formación y desarrollo de relaciones interpresupuestarias en la Federación de Rusia

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Abstract

Budgetary federalism in modern conditions acts as a key link in the financial system of the Russian Federation. And this is natural, because the efficiency of the entire budgetary system, and hence the economy of the national economy as a whole, depends on the effectiveness of budgetary federalism functioning. Of course, one can hardly overestimate the importance of budgetary federalism for such countries as Russia, the United States, Great Britain, the Federal Republic of Germany, and others, which are considered as a federal state. One of the most important problems in federal countries is the need to develop a modern economic mechanism for vertical alignment in order to distribute optimally the financial flows between the corresponding levels of the budget system. Another independent problem is the need for horizontal alignment, focused on the provision of subsidies in the form of inappropriate financial assistance to the regions. The imperfection of the subsidy mechanism is already obvious - it is not only extremely costly, but also makes it impossible to provide targeted financial assistance to needy constituent entities of the Russian Federation. In the course of our study, we examined many different approaches to disclose the economic content of fiscal federalism definition. All this, in our opinion, requires clarification of the concept under consideration. It should be noted that there is still no clear formulation of "budgetary federalism" concept, which undoubtedly complicates the process of economically sound decision development and implementation to optimize budgetary federalism in the Russian Federation.



Keywords: economic crisis, integration of financial and economic relations, budgetary federalism, financial system, vertical and horizontal alignment, financial support, subsidiary system.

Resumen

El federalismo presupuestario en las condiciones modernas actúa como un eslabón clave en el sistema financiero de la Federación de Rusia. Y esto es natural, porque la eficiencia de todo el sistema presupuestario y, por lo tanto, la economía de la economía nacional en su conjunto, depende de la eficacia del funcionamiento del federalismo presupuestario. Por supuesto, difícilmente se puede sobrestimar la importancia del federalismo presupuestario para países como Rusia, Estados Unidos, Gran Bretaña, la República Federal de Alemania y otros, que se consideran un estado federal. Uno de los problemas más importantes en los países federales es la necesidad de desarrollar un mecanismo económico moderno de alineación vertical para distribuir de manera óptima los flujos financieros entre los niveles correspondientes del sistema presupuestario. Otro problema independiente es la necesidad de alineación horizontal, centrada en la provisión de subsidios en forma de asistencia financiera inapropiada a las regiones. La imperfección del mecanismo de subvención ya es obvia: no solo es extremadamente costoso, sino que también hace que sea imposible proporcionar asistencia financiera específica a las entidades constituyentes necesitadas de la Federación de Rusia. En el curso de nuestro estudio, examinamos muchos enfoques diferentes para revelar el contenido económico de la definición de federalismo fiscal. Todo esto, en nuestra opinión, requiere una aclaración del concepto en consideración. Cabe señalar que todavía no existe una formulación clara del concepto de "federalismo presupuestario", lo que sin duda complica el proceso de elaboración y aplicación de decisiones económicamente sólidas para optimizar el federalismo presupuestario en la Federación de Rusia.

Palabras clave: crisis económica, integración de las relaciones económicas y financieras, federalismo presupuestario, sistema financiero, alineación vertical y horizontal, apoyo financiero, sistema subsidiario.

Introduction

In the course of our research, we studied constructively the works of the most famous Russian and foreign scholars on the scientific issues under consideration, among which it is necessary to highlight the works by K.K. Baranov, O.V. Bogachev, S.V. Galitskaya, M.V. Romanovsky, Shvetsov Yu.G., Duncan M.T., Stiglitz D., Talbot P., Hauser H. et al.

These and other scholars have quite thoroughly worked out the problems of budgetary federalism formation and development, and the construction of interbudgetary relations.

However, globalization and increasing competition, aggravated by the growth of economic uncertainty, have exposed new problems and tasks of budgetary federalism, including the need to provide regional and municipal authorities with their own financial resources; optimization of the size and forms of financial assistance from the federal center to the constituent entities of the Russian Federation; development of a modern organizational and economic mechanism for budgetary equalization of budgetary federalism imbalance at the corresponding levels of government, etc.

In our work, we will proceed from the assumption that budgetary federalism, first of all, is positioned as an economic concept. Thus, we give ourselves the opportunity not to burden ourselves with the consideration of fiscal federalism as the relationship between authorities.

At the same time, we are aware that budgetary federalism is a special type of interbudgetary relations that ensures the independence (autonomy) of budgets of different levels. Fiscal federalism uses a set of organizational-political and financial-economic instruments for the formation and implementation of federal relations. The thing is about ensuring the equality of the Russian Federation subjects; on the legislative delimitation of rights and responsibilities between federal and regional structures; the combination of centralism and decentralism in management; on ensuring revenue authority and expense responsibility, vertical and horizontal alignment, etc.

In our opinion, budgetary federalism is an integral part of interbudgetary relations, and these relations can exist in unitary states as well.

Experts note that the proper effectiveness of budgetary federalism development can only be ensured by creating a harmonious unity of the entire



budgetary system, implemented through the autonomy of expenditures and revenues of the corresponding levels of budgets and neutralizing the vertical and horizontal imbalances of the budgetary system (Artemieva, 2007; Dorzhdeev, 2000; Pridachuk, 2003).

All of the abovementioned requires the content clarification of the concept under consideration, its purpose and improvement of the concept of budgetary federalism development.

Study methodology

Scientific works (monographs, articles, etc.) of the most famous domestic and foreign scholars and practitioners on the problems of building budgetary federalism, interbudgetary relation improvement, and budgetary equalization were used as the theoretical and methodological basis of our study. In the course of our study, we used general scientific and special methods of cognition:

- logical, statistical, systemic and economic analysis;
- expert assessments, comparison, detailing, groupings, generalization.

The reliability and validity of the results achieved by us is ensured by the use of modern scientific tools, clearly formulated tasks and the validity of their solution relevance.

Study results

In accordance with the RF Budget Code, the federal structure of the state, implemented through budgetary federalism, acts as the basis of the budget system of our country. In our opinion, this is a rather generalized definition that requires a clear definition. At the same time, one must proceed from the obligation to implement the basic principles of budgetary federalism, which presuppose:

- legislative differentiation of powers on expenditures between authorities at all levels of government;
- provision of all levels of government with appropriate financial resources to carry out their functional duties;
- provision of vertical and horizontal equalization of incomes of all parts of the budget system; independence and equality of each link of the budgetary system, etc (Dorzhdeev, 2000).

The need to clarify the content of "budgetary federalism" concept required to analyze the group of the most popular approaches, formulated by researchers, to the definition of the considered term.

For example, the Professor S.V. Galitskaya sees the essence of this concept in "the regulatory and legislative establishment of budgetary rights and responsibilities of two equal parties - federal and regional authorities and administration, the rules of their interaction at all stages of the budgetary process, the methods of partial redistribution of resources between the levels of the budgetary system" (Gauzhaev et al., 2013).

In (Somiev, 1999), it is proposed to consider budgetary federalism as "a multifaceted, multi-level set of relations in the budgetary sphere between the federation, constituent entities of the Russian Federation and local self-government bodies, which is formed in a politically agreed and clearly legally fixed framework that allows each level of power and management to implement fully the powers assigned to them by the Constitution of the country and the Federal Treaty on an independent basis in the national and state interests.

In work (Godin, 2008), the team of authors interprets the concept under consideration as "a form of budgetary structure in a federal state, which implies the real participation of all links of the budgetary system, equally focused on taking into account both the national interests and the interests of the Russian Federation subjects."

Dorzhdeev A. (2000), Dyakova E.B. (2007), Romanovsky M.V. (Vrublevskaya & Romanovsky, 2008) and others adhere to approximately the same views with some detail.

We do not share the possibility of defining budgetary federalism as a form of budgetary structure, because the definition under consideration is incomparably more multifaceted concept and presupposes a complex of all kinds of financial relations between budgets of different levels, which ensures the unity of the budget system and the functioning autonomy of this system budgets.

In our opinion, it is inappropriate to simplify the definition of fiscal federalism and reduce it only to the relation between authorities at different levels. It is also inappropriate to define budgetary federalism as a system of budgetary relations, because then the second concept is transformed into the first concept.

Indeed, the budget system directly manifests itself in two of its constituent subsystems:

- the subsystem of budgetary relations;
- the subsystem of interbudgetary relations.

The first subsystem reflects the system of monetary relations along the axis taxpayers - authorities - budget recipients.



The second subsystem characterizes the system of relations that determine the nature of budgetary relation organization, their structure and interaction. Hence, it can be assumed that budgetary federalism is nothing more than a separate type of interbudgetary relations that ensures the relative independence of budgets of different levels.

Nevertheless, there are many works where the authors almost do not see any differences between the concepts of "budgetary federalism" and "interbudgetary relations" (Galitskaya, 2003; Kurlyandskaya & De Silva Migara, 2006; Misakov et al., 2013).

On the one hand, one can agree with this, after all, their substantive meaning is the same on the whole in any federal country.

But, on the other hand, one must also admit that even in these conditions, budgetary federalism remains only one of the types of interbudgetary relations, which excludes the identification of these definitions. Besides, in economic terms, budgetary federalism is in no way associated with a specific political structure of the state, since inter-budgetary relations are inherent in any budget system, regardless of the principles of its organization and implementation.

It is appropriate to say that the legislator gave a more precise definition of interbudgetary relations on 20.08.2004 - this is the relationship between federal, regional and municipal authorities on the regulation of budgetary legal relations, organization and the budget process implementation.

Optimization of budgetary federalism functioning is based on a strict legislative division of powers between all levels of government in terms of expenditures; endowing all levels of power with the income sources necessary to achieve the set goals; elimination of vertical and horizontal budget imbalances.

It is noted in (Godin et al., 2009) that budget equalization in the Russian Federation positions the attitude of budgetary federalism by its form, and it is an objectively necessary way of a single state development as an integral economic system.

The key problem of budgetary federalism in almost all countries is the budgetary system imbalance. The main reasons for this phenomenon are the following:

- insufficient economic substantiation of tax resource differentiation and distribution between budgets of different levels;
- significant limited rights of regional and municipal authorities in tax management;

- low level of incentives and responsibility of the sub-federal authorities of the RF constituent entities for the tax potential increase of territories, etc.

The point is that the main factors of the need for budgetary equalization are vertical and horizontal imbalances in the budget system.

The first is characterized by a discrepancy between tax revenues of the corresponding level of the budget system during the implementation of the set tasks.

The horizontal imbalance of budgets consists in the discrepancy between the tax revenues of the budgets and the tasks it faces at the regional and municipal levels.

To eliminate two types of imbalance in budgets, all economically developed countries use vertical and horizontal regulation. We have already noted above that the content of vertical budget equalization is manifested in the provision of a financial base for the implementation of expenditure budget powers between the corresponding levels of government. In other words, the main goal of vertical budgetary equalization is to create a financial base sufficient for the implementation of budgetary powers for expenditure among different levels of government. Own and regulatory taxes are among the main tools for vertical budgetary equalization.

Experts call the need for a clear delineation (formulation) of the subjects of jurisdiction and powers in all aspects of financial activity as one of the most important priority conditions for the delineation of budgetary powers between federal and regional authorities. However, in this regard, it should be noted that the Constitution of the Russian Federation provides only general criteria for the distribution of powers between the corresponding levels of the budget system without strict regulation of the mechanism ensuring the powers assigned to each authority (Dyakova, 2011; Tkhamadokova, 2006).

Apparently, for this reason, federal structures often do not take into account income funds when delegating spending powers to regions, which, of course, leads to redistribution and increase in the volume of transfers.

Speaking about the financial independence of budgets, it should be noted that, in addition to the distribution of expenditure powers between the levels of the budget system, it includes a real opportunity to ensure these revenues.

Horizontal alignment, in turn, is set up to ensure equal access to socially important budgetary services through the use of standard methods during



the distribution of financial assistance from the federal center to the entire population of the country, regardless of where they live.

Horizontal alignment allows the constituent entities of the Russian Federation to provide the local population with public services at the level of current standards.

In the course of our study of the socio-economic situation of the depressive labor-surplus land-poor republics of the North Caucasus, we became convinced of the urgent need to equalize the budgetary provision of these territories. Low-income subsidized republics of the region under consideration, especially mountainous regions, are in dire need of social protection and its delay, in our opinion, can lead to a social explosion in this already geopolitically complex region (Vrublevskaya & Romanovsky, 2008; Misakov & Betrozov, 2012; Chenib, 2005).

But at the same time, it is also necessary to point out the inadmissibility of excessive equalization of the existing differentiation, because this will definitely reduce the incentives for the development of their own tax base among donor regions. Hence, it is necessary to pursue the policy of optimal reduction in the differentiation of the Russian Federation regions, guaranteeing the depressed territories the minimum permissible level of budgetary provision and equal accessibility of the country population to basic budgetary services.

To neutralize the horizontal imbalance in depressed regions, intergovernmental transfers are used, providing funds from one budget to another. This approach allows you to balance the budgets somewhat. For example, the federal center eliminates the horizontal balance by increasing the volume of interbudgetary transfers allocated to regional budgets. At the same time, it should be noted that such subsidies do not have a targeted nature of financial assistance, because the nature of their spending is not known in advance. At the same time, co-financing is not required here.

In contrast to subsidies, subventions have a clearly defined targeting of financial assistance, albeit without the obligation of equity participation. Subsidies are strictly targeted and involve mandatory equity participation (co-financing). The mechanism of budget subsidies includes more than a hundred different subsidies ... Other interbudgetary transfers are also used in the case of horizontal equalization.

The bulk of tax revenues are concentrated in the federal budget. It is clear that this situation exacerbates the contradictions between the federal

center and the regions and municipalities, because the latter are completely dependent on higher budgets in these conditions. It should also be noted that this approach reduces the interest of sub-federal and regional authorities in taxable base increase on their territory, gets used to dependency, and reduces their financial independence. All this once again emphasizes the need for an immediate revision of the mechanism for interbudgetary transfer provision in the direction of targeting regional and municipal authorities to intensify the buildup of their own tax base and ensure sustainable investment, innovation and economic development (Tsurova et al., 2019).

The problem of region provision with the possibility of their own regional and municipal tax increase is especially worthwhile, because without the availability of their own sources of income, it is impossible to talk about any financial independence. So, for example, in accordance with the Article 50 of the RF Budget Code, the current system of tax powers is represented by the absolute dominance of federal taxes and fees - six federal, three regional and two municipal ones. As we can see, there is an excessive centralization of budgetary funds at the federal level. Moreover, all tax rates and the tax base itself, which form the sources of regional and local budget development, are determined by the federal center - the territories are devoid of legislative levers for the independent implementation of financial policy. This is especially clearly manifested in the regions where mining operations are carried out.

All of the above allows us to speak about the cumbersomeness of the mechanism for the division of tax powers between the corresponding levels of the budgetary system and the excessive centralization of fiscal powers. Moreover, the scope of the fiscal powers of the RF regions is extremely narrow and does not imply the right to maintain their own taxes, which are not provided for by Russian laws, or to increase tax rates in excess of the limits specified by federal legislation (Tkhamadokova, 2006).

Undoubtedly, all this actualizes the need to modernize the mechanisms of vertical and horizontal equalization and develop a progressive model of budgetary federalism in the Russian Federation, which will increase financial independence and strengthen the financial base of regional and municipal budgets.

Conclusions and offers

Our study allowed us to substantiate and formulate a number of conclusions and proposals that have scientific and practical significance.



1. In our work, we proceeded from the assumption that budgetary federalism acts as the basis of interbudgetary relations in the Russian Federation. It manifests itself in the form of a complex of financial relations between federal, regional and municipal levels, which ensures the unity of the country budget system through the autonomy of expenditures and revenues of the corresponding budget levels and horizontal equalization of revenues.

2. The key problem of budgetary federalism in almost all countries is the imbalance of the budgetary system. The main reasons for this phenomenon are the following:

- insufficient economic substantiation of tax resource differentiation and distribution between the budgets of different levels;
- significant limited rights of regional and municipal authorities in tax management;
- low level of incentives and responsibility of the sub-federal authorities of the RF constituent entities for the territorial tax potential increase, etc.

3. The bulk of tax revenue is concentrated in the federal budget. It is clear that this situation exacerbates the contradictions between the federal center and the regions and municipalities, because the latter are completely dependent on higher budgets in these conditions. It should also be noted that this approach reduces the interest of sub-federal and regional authorities in taxable base increase on their territory, gets used to dependency, and reduces their financial independence. All this once again emphasizes the need for an immediate revision of the mechanism for interbudgetary transfer provision in the direction of targeting regional and municipal authorities to intensify the buildup of their own tax base and ensure sustainable investment, innovation and economic development.

In our opinion, our proposed methodological provisions and practical recommendations for budgetary federalism and interbudgetary relation improvement are capable of strengthening the budgetary system of the Russian Federation and act as the basis for further budgetary federalism improvement.

Conflict of interests

The authors declare no conflicts of interests.

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