

## Regional Public Service Provision and Civil Society in Russia<sup>†</sup>

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**Abstract:** This article aims to analyse how the Russian government attempted to integrate its large and diverse regions from the viewpoint of fiscal redistribution among regions, during the period of centralisation under the Putin administration. It focuses on whether fiscal centralisation has helped diminish the regional disparity in fiscal revenues and contributed to improving the public service provision at the regional level, taking the case of education for example, which could economically benefit the Russian population. We show that fiscal centralisation did not strengthen redistribution among regions as much as we expected, though redistribution seems to have become more important in a phase of economic downturn, following the world economic crisis to maintain public support for the current regime.

**Keywords:** public service, regional disparity, intergovernmental fiscal relationship, Russia, civil society

**JEL Classification Numbers:** H71, H72, H77

### 1. Introduction

The Russian government, in the social confusion caused by the transition, was extremely weakened in the 1990s. Moreover, this disorder of the government has resulted in the decentralisation—or near dissolution—of the country, where strong regional governments, oriented to the greater autonomy, have seized bigger power and financial resources away from the central government. As many regions have followed this process, the Russian federation began being called the ‘asymmetric federation’, in which each region holds an uneven legal authority and tax base. The federal government was facing the challenge of keeping enough power and fiscal revenues to serve as the central government of a nation state<sup>1</sup>.

Upon coming to power in 2000, President Vladimir Putin started the institutional reform of the Russian Federation and began the process of centralising its political and fiscal system. Under the Putin regime, the Russian federal government has succeeded in regaining its authority, which was dispersed among regions in the 1990s, as well as correct institutional inequality among these regional governments. The manner of tax distribution between federal and regional governments also changed to allow taxes to be divided based on a formal rule, increasing the tax revenue of the federal budget. Even after achieving its goal to eliminate negative aspects of asymmetric federalism, the Putin administration has continued reform of the federal system. Accordingly, Russia has become a highly centralised country regarding politics and regional fiscal autonomy, in contrast to the conventional wisdom concerning decentralising federal states.

However, most Russian citizens have been supportive of President Putin and his government strengthening its vertical control over politics and the economy, at least until the government's announcement of pension reform in 2018<sup>2</sup>. As we will address later in this article, it is alleged that a 'social contract' between the state and people exists in Russian society, where people give support to the present political regime in exchange for the state's guarantee of economic benefit. This article aims to analyse how the Russian government tried to integrate its large and diverse regions, from the viewpoint of fiscal redistribution among regions, during the period of centralisation. It focuses on whether fiscal centralisation has helped diminish the regional disparity in fiscal revenues and contributed to improving the public service provision at the regional level—which includes important social services, such as education, health care, and housing and communal services. Specifically, we examine if the centralisation has increased economic benefit for the Russian people.

The paper consists of four parts. First, we briefly overview the preceding studies. Second, we summarise the process of political centralisation in Russia, after 2000, and the reaction of civil society toward the reform. Third, the centralising process of the fiscal system and regional fiscal crisis, which has been seen in recent years, is considered. Finally, we analyse how the reform affected equality among regional budgets and regional public service provision, based on the statistics of the Ministry of Finance and Federal Treasury of Russia.

## **2. Centre-periphery relationship and intergovernmental finance in Russia: Research overview**

Russia has experienced a radical decentralisation following the collapse of the Soviet Union. The Russian government, under President Yeltsin, had to persuade regional governors to stay in the Russian Federation, as some regions started requiring more autonomy—or even independence—from the federation, such as the Chechen Republic. Therefore, the federal government granted separatist regions enough fiscal resources for them to agree to remain a member of the Russian Federation. Specifically, the federal government permitted these regions to retain larger portions of federal taxes at the regional level, though they were supposed to be sent to the federal budget. There was no clear rule for tax sharing between federal and regional governments at that time; therefore, the sharing rate of major taxes often became the object of political negotiation between governments.

In the 1990s, many studies focused on the characteristics and direction of the federal government's fiscal transfers to the regions, both direct and indirect. For example, Treisman (1999) identified the 'selective fiscal appeasement' in mid-1990s Russia, in which more federal transfers (both direct and indirect) tended to flow to regions with leaders who opposed the Yeltsin government. Popov (2004), on the contrary, showed that pro-Yeltsin regions received more federal transfers from 1995 to 2001. Additionally, some researchers, such as McAuley (1997) and Stewart (2000), insisted that regional fiscal sufficiency or demand for fiscal resources are more strongly reflected than political elements in the distribution of fiscal

transfers. Nonetheless, studies in the 1990s closely considered the relationship between the distribution of fiscal resources to regions and political stance of the regional governments toward the centre.

The discussion trend has shown a change in the 2000s. Jarocinska (2010) studied a longer period and concluded that pro-government regions tended to receive bigger federal transfers in the latter half of the 1990s, as in Popov (2004), though there was no correlation between transfer amounts and voting patterns in the regions from 2000 to 2004. Jarocinska explained this change. First, the transfer system was reformed, becoming more formal and formula-based; thus politicians lost the opportunity to use the system for their political purposes. Second, without strong political rivals, incumbent politicians had less necessity to distribute fiscal resources to the electorate to gain support (Jarocinska 2010, pp. 406–407)<sup>3</sup>. However, Starodubtsev (2018), based on his own statistical analysis, has concluded that the politics has mattered even in the 2000s and 2010s in terms of the distribution of intergovernmental transfers in Russia. He analysed the correlation of the distribution of federal transfers to the regions with the levels of loyalty and opposition of a region's electorate in the national elections and has shown the continuous influence of political attitude of regional residents on the transfer distribution, though the strategy of the federal government seems to have changed from 'political co-optation' in the 1990s to the 'political cronyism' after 2000 (Starodubtsev 2018, p.109).

These discussions show that even though the federal transfer and tax sharing system between the federal and regional governments became more depoliticized, more formal, and rule-based one, the opaqueness of the system remains and leaves room for political manipulation. However, it would not be reasonable to divide factors influencing the transfer distribution into either political or socio-economic needs, as both elements could affect each other. The transfers can be supportive toward poor regions and have equalizing effects, but at the same time it can be illustrated as vote-buying from a political viewpoint. Here we examine the intergovernmental transfers from a viewpoint of equality in the fiscal capacity and the level of public service provision in regions, which can indirectly affect their political attitudes toward the federal government.

### **3. Political centralisation under the Putin administration and reaction of the civil society**

The political centralisation process under Putin's administration started in 2000, when it introduced reforms to the federal political system. First, the upper house of state Duma was reformed. Its members once consisted of regional governors and chairpersons of regional parliament in the 1990s, which made the upper house a field where regional interests strongly clashed with the federal centre. However, the reform restricted upper house members from being a governor or chairperson of the regional assembly, and new representatives of the upper house now have less influence on the federal government<sup>4</sup>. In addition, territory of the Russian Federation was divided into seven federal districts and became monitored by officials delegated by the Russian president. More shockingly, the federal government abolished popular elections for regional governors in 2005, replacing this system with presidential appointments. This denial

of regional democracy caused broad criticism, and the government reversed this system in 2012. However, the president still has the authority to dismiss governors he deems unacceptable, which means that democracy is still flawed at the regional level.

Local governments, including cities, districts (raions), and settlements, maintain their popular elections. However, local governments are not free from the federal government's vertical control. In 2003, the federal government passed a new law on local self-government and—according to this law—not only a mayor elected by popular vote, but a city manager employed by a contract can govern the local government<sup>5</sup>. Moses (2017) said that since this law on local self-government was introduced, mayoral elections were abolished in 62% of all Russian municipalities, or 88% of all big cities, by October 2015<sup>6</sup>. Anti-government movements at the local level, especially in big cities, could be considered a threat for the Putin administration. Therefore, the government seemingly wanted to restrict free elections at the local level.

Thus, both regional and local politics in Russia are now under the direct control of the federal government; they no longer need to control regions using fiscal resources.

Therefore, how did Russian civil society react to this situation while losing their political rights? Subsequently, Putin declared himself a presidential candidate for the 2011 election, and Russian citizens began criticising the government, with accusations that very important political decisions are made between two people. There was an upsurge in the anti-Putin movement, especially within the big cities, until around 2013. This movement seemed to push Russian civil society toward democratisation at that time. However, it subsided after Putin returned to the post.

One reason is that the government strengthened its suppression over such protests, but we can also include Russian citizens' (at least passive) approval of the Putin regime as another important reason. According to Gontmakher and Ross (2016), there are two theories concerning the democratisation of Russian society. One is a modernisation theory, which considers that an authoritarian regime will become more democratic when the country achieves economic growth, industrialisation, urbanisation, and its people become more educated, especially with the middle class driving the change. The other considers that it depends on the social, political, and economic situation of each country—and if that country's middle class prefers democratisation. The latter view was revealed in a Chinese case study. Gontmakher and Ross insist that the Russian middle class does not promote democratisation, as the latter theory implies. This is because of the social affiliation of the Russian middle class. The size of the middle class is small compared to more advanced countries, and over 50-60% of the Russian middle class are workers in the state sector. Therefore, they tend to support United Russia and President Putin and prefer stability rather than reform (Gontmakher and Ross, 2016, pp. 101-102).

Busygina and Fillipov (2016) also stated that those who want political change in Russia are a real minority, while most citizens—including the rich, middle class, and poor—are rather afraid of the political risks and the economic loss that reform would bring. They agree with the idea that the state provides a

degree of political stability and economic prosperity, while the Russian population abstains from demanding certain political rights (Busygina and Fillipov, 2016, pp. 45–46).

Thus, we can assume the existence of certain kinds of social contracts between the Russian state and civil society, which means that people accept the current authoritarian political regime in exchange for economic benefits, such as public goods and services. Additionally, as Russia has a long-lasting history of being a centralised state regime, people tend to be tolerant toward centralisation and expect that a strong central government would punish corrupt regional and local governments. This also explains Russian civil society's acceptance of the current regime. However, as Busygina and Fillipov indicated, wherever the current political regime is unable to deliver public goods and services, as agreed upon, the same social groups that are reluctant to support political demands would be more likely to join local non-political protests (Busygina and Fillipov, 2016, p. 51). Actually, President Putin's popularity rating has sharply declined, following the government's 2018 announcement regarding old-age pension reform—delaying the age for receiving the pension, which seems to prove the existence of such a social contract.

Has public service provision under the Putin regime succeeded in obtaining support from citizens? Regional or local governments provide most of the public services tied closely to a citizen's life, such as education, healthcare, housing, communal services, and social policy. Therefore, this study considers how reforms of fiscal federalism, after 2000, helped improve public service provision at the regional level and equality of fiscal capacity among regional governments.

#### **4. Reform of fiscal federalism under the Putin administration**

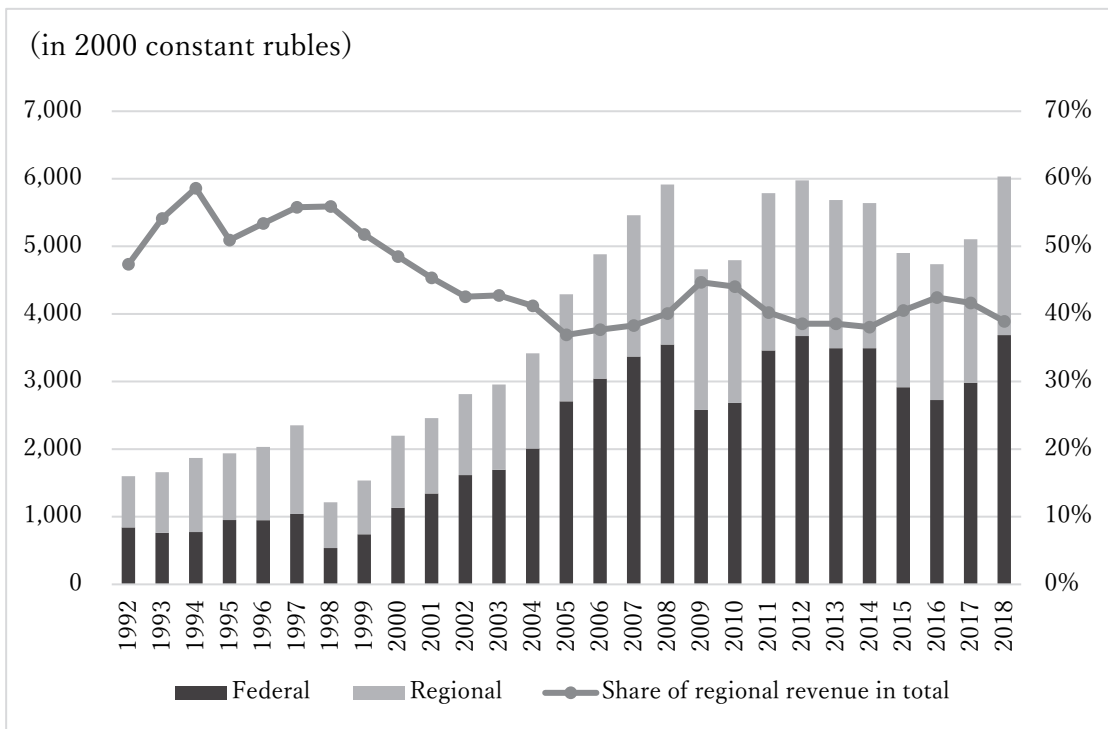
As the political centralisation proceeded, the intergovernmental fiscal relationship has also changed. Figures 1 and 2 show the share of consolidated regional budgets (sum of regional and local budgets) of all revenues and expenditures of the Russian government. The revenue share of the regional budget peaked at 59% in 1994, declining by the end of the 1990s and remaining at around 40% after 2010. The share of regional expenditure also peaked at 52% in 1997, but it declined to around 45% after 2002 and, again, after 2009. The share was around 40% in 2018. Hence, we can observe a centralising process in the budget, concerning both revenue and expenditure, after 2000. In the following section, we will look at reasons that diminished the regional budget's weight in both tax revenue and expenditure.

##### **4.1 Intergovernmental distribution of tax revenue**

Tax distribution between Russia's federal and regional governments has dramatically changed over the last few decades. In the 1990s, as the legal base for clear tax distribution was lacking, the federal and regional governments often decided the rate of tax sharing between them based on ad-hoc political negotiations. However, such an ambiguous practice has been replaced by formal rules because of a series of institutional reforms concerning tax and budget, which were undertaken by the Putin administration.

The Tax Code and Budget Code were introduced at the end of the 1990s, and based on these laws, the tax distribution rate between federal and regional governments was institutionalised. Taxes in Russia can be classified as federal, regional, or local tax, though most actual tax revenues consist of federal taxes<sup>7</sup>. The larger number of regional and local taxes existed in the 1990s, though many of them were abolished by the introduction of the Tax Code. Currently, the number of regional and local taxes is limited, and they are small amounts<sup>8</sup>. Therefore, regional and local governments must cover most of their budget with shared federal tax, as well as fiscal transfer from the federal budget. Authority to levy federal tax naturally belongs to the federal government, and the regional and local governments are not allowed to impose new taxes, according to Russian legislation. Therefore, there is no room for regional and local governments to insist tax autonomy to singlehandedly control their tax revenue.

**Figure1. Revenue of the federal and consolidated regional governments**

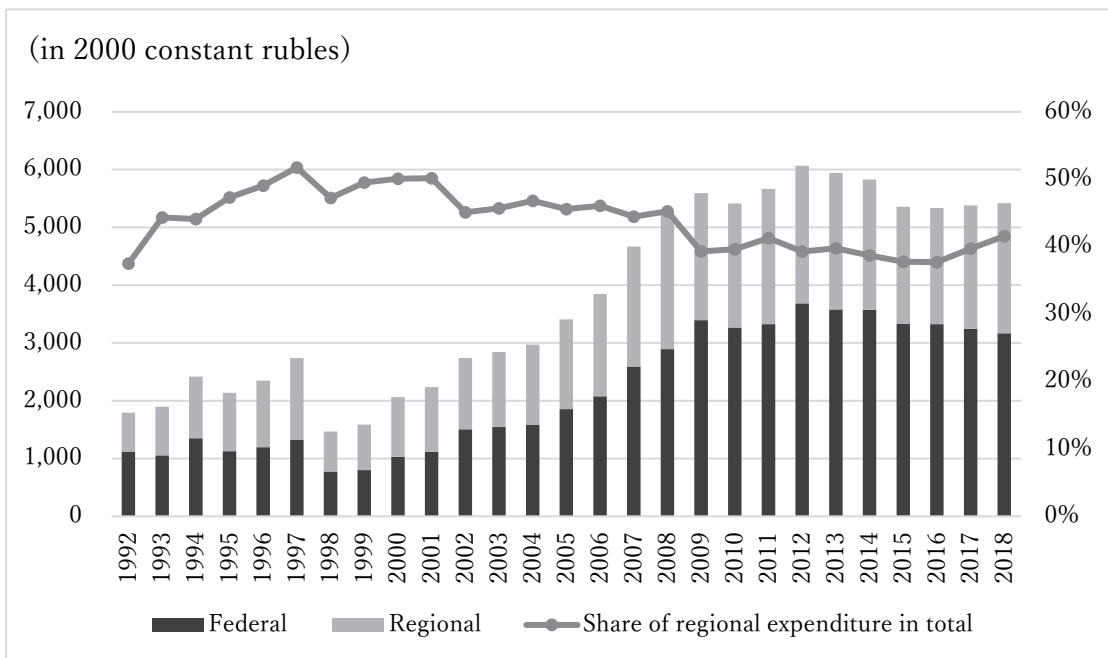


Source: Author's composition from the Russian Statistical Agency website.

Distribution of federal tax revenue was once a target of political negotiation between the federal and regional government in the 1990s, and regional governments could retain a bigger part of them at that time. However, law determined the sharing rate of various taxes in the 2000s, and the rate was changed in favour of the federal budget (Table 1). The main point was that natural resource-based taxes (tax on mineral

resource extraction and export tariff) have been concentrated to the federal budget revenue. Natural resources, especially oil and natural gas, are the foundation of the Russian economy, and taxes from this sector constitute about half of the federal budget revenue. Contrarily, these taxes belonged mainly to the regional budget in the 1990s, which made the existence of tax resources quite uneven among regions. Furthermore, tax burden for oil and gas companies was not as heavy as it is today. Tax reform under the Putin presidency has increased tax burdens for the oil and gas sectors, changing its formula to ad valorem taxing. Subsequently, natural resource taxes benefitted the federal budget during the sharp rise of world oil prices after 2000, and the federal government has succeeded in increasing its tax revenue.

**Figure2. Expenditure of the federal and consolidated regional governments**



Source: Same as Figure 1.

The federal government also received 100% of the VAT revenue from 2001, though the federal and regional governments shared VAT, often arbitrarily, in the 1990s.

Since 2001, regional governments receive all personal income tax (PIT) and property tax revenue, though they were shared between the federal and regional governments in the 1990s. A clear sharing rule for corporate profit tax (CPT) was determined, and 2% of the 20% CPT belongs to the federal government, while 18% belongs to the regions.

Due to these tax legislation reforms, federal tax revenue increased sharply in the 2000s, especially the revenues from natural resource tax, export tariffs, and VAT. Alternatively, regional governments have

acquired most of the corporate profit, personal income, and property taxes. Personal income taxes fully became the regional revenue in 2001. As for property taxes, corporate property tax was defined as regional tax, which fully belongs to the regional budget. Personal property tax was defined as local tax, which fully belongs to the local budget. Corporate profit taxes are divided between federal and regional governments: 2% of 20% of its tax rate goes to the federal budget, while 18% goes to the regional budget.

These reforms have brought a visible increase of federal tax revenue in the 2000s, which exceed the increase of regional taxes. As Table 1 shows, tax increases on mineral resource extraction, export tariff, and VAT have made major contributions to the increase in federal tax revenue.

**Table 1. Distribution of major taxes between federal and regional budgets**

(bln. rubles / tln. rubles in 1995)

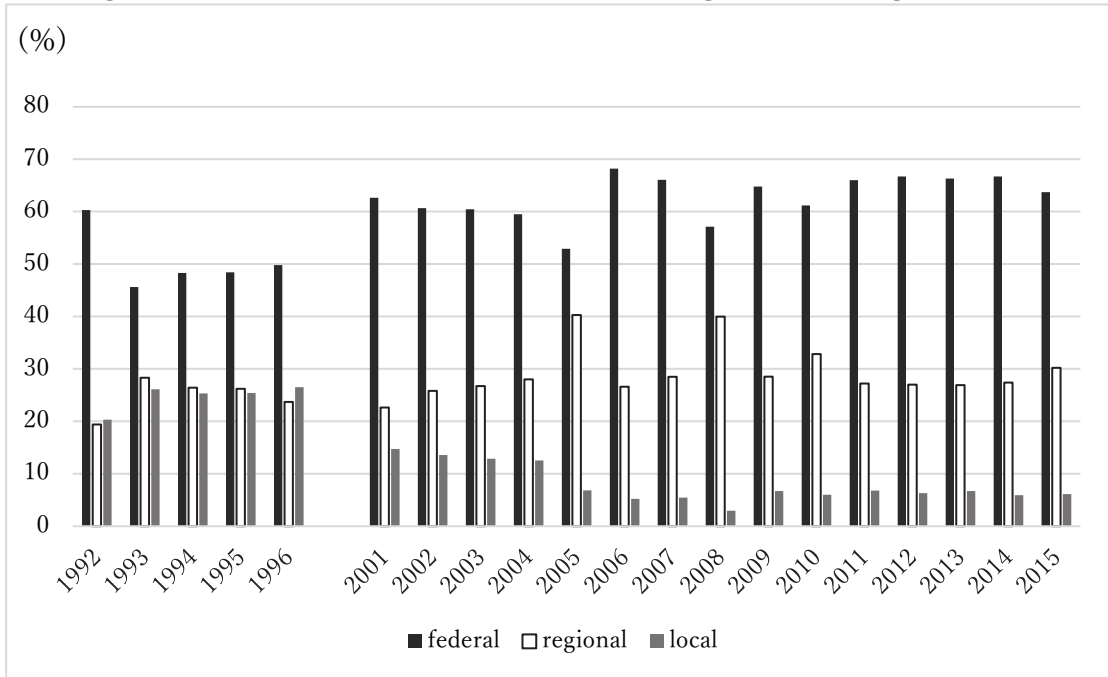
	1995		2000		2005		2010		2015	
	federal	regional	federal	regional	federal	regional	federal	regional	federal	regional
Total revenue	232.1	241.0	1,132.1	1,065.8	5,127.2	2,999.9	8,305.4	6,537.3	13,659.2	9,308.2
Corporate Profit Tax	41.5	76.1	178.0	220.8	377.6	955.3	255.0	1,519.5	491.4	2,107.6
Personal Income Tax	3.3	33.3	27.4	147.4	0.0	707.0	0.0	1,790.5	0.0	2,807.8
VAT	71.8	23.9	371.5	85.8	1,472.2	0.1	2,498.2	0.3	4,233.5	0.4
Exercise Tax	17.5	6.5	131.1	35.3	107.1	146.6	144.0	327.5	581.9	486.5
Property Tax	0.8	16.1	1.3	63.5	0.0	253.1	0.0	628.2	0.0	1,068.6
Natural Resources Tax	3.0	9.3	18.6	59.0	872.3	56.3	1,408.3	32.4	3,181.2	69.6
Tax from International Economic Activities	24.9	0.0	229.2	0.0	1,680.9	0.0	3,227.7	0.0	3,295.3	0.0
Total revenue	49%	51%	52%	48%	63%	37%	56%	44%	59%	41%
Corporate Profit Tax	35%	65%	45%	55%	28%	72%	14%	86%	19%	81%
Personal Income Tax	9%	91%	16%	84%	0%	100%	0%	100%	0%	100%
VAT	75%	25%	81%	19%	100%	0%	100%	0%	100%	0%
Exercise Tax	73%	27%	79%	21%	42%	58%	31%	69%	54%	46%
Property Tax	5%	95%	2%	98%	0%	100%	0%	100%	0%	100%
Natural Resources Tax	24%	76%	24%	76%	94%	6%	98%	2%	98%	2%
Tax from International Economic Activities	100%	0%	100%	0%	100%	0%	100%	0%	100%	0%

Source: Author's composition using data from the Russian Statistical Agency website.

Regional tax revenue is further divided between regional and local governments, and the sharing rate changed under Putin's government, as well. Concretely, the introduction of the new legislation of local self-government in 2003, and following amendments of Tax Code and Budget Code, has brought a sharp decline to local tax revenue. For example, local budgets used to obtain 50% of tax revenue from corporate profit and corporate property taxes, though the regional government deprived them of all taxes. Additionally, the PIT sharing rate to municipalities reduced from more than 50% to 30%.

Figure 3 shows the results of these changes. Federal tax revenue increases are visible during the period of centralisation. Simultaneously—and interestingly—the distribution of tax revenue to regional governments has not declined since, or even exceed the level of, the 1990s—when they enjoyed a more political autonomy. On the contrary, the tax revenue of local governments decreased dramatically, after 2005, to 5% of total tax revenues. Thus, we can observe how the centralisation of tax revenue has affected each level of government differently.



**Figure3. Distribution of tax revenue between federal, regional, and local governments**

Source: Author's composition using data from the Federal Treasury of Russia website, В.К.Сенчагов (ред.) Модернизация финансовой сферы России: монография, М.Нестр-История, 2011, and L. Freinkman and P. Yossifov, Decentralization in Regional Fiscal Systems in Russia, The World Bank, 1999.

#### 4.2 Expenditure reform and the May 2012 Presidential Decree

Let us consider the expenditure side. In the 1990s, there was no clear division of responsibility for government expenditures between federal, regional, and local governments. While several tax base transfers to regions occurred in the 1990s, the federal government had also delegated some expenditure responsibility to regions without enough resources to finance them, causing a problem known as 'unfunded federal mandates'. Therefore, reforms after the 2000s tried to define clear expenditure responsibilities for each level of government<sup>9</sup>.

Thereafter, Russian regional finance has had the following characteristics. First, the sub-national level of government has an important function in income redistribution. The new legislation on local self-government, in 2003, transferred some expenditure obligations from the local to the regional level, including social policy—such as benefits for veterans and disabled people, child allowances, education, housing subsidies for lower income families, and support for farmers. These transfers of public expenditures made regional governments in Russia highly responsible for the income redistribution function. Local governments received many delegated functions from the upper government, while their

revenues also became deeply dependent on the fiscal transfer from the regional budget. Thus, local government increasingly lost fiscal autonomy and acted as a branch office of a vertically integrated state organisation.

When Putin returned to the post of Russian President in May 2012, he immediately signed eleven presidential decrees, including six for the economy. One of them, ‘on measures for realisation of national social policy’<sup>10</sup>, was a decree to order an increase of salaries for several categories of workers, including teachers, medical staff, and workers in cultural facilities, among others, to at least the average salary level in each region from 2012 to 2018<sup>11</sup>. This was considered a populist policy by the Putin team to increase the popularity rating for his administration when they were facing the threat of anti-Putin protests in various cities. However, responsibility for paying these salaries belongs mostly to regional authorities, and the federal government did not provide any financial resources to cover these additional expenditures. As Table 2 shows, transfers from federal budget decreased during this period. The federal fiscal transfers covered 30% of the cost necessary to achieve the wage increase promised by the presidential decree in 2014, though this coverage rate dropped to 17% in 2015 and 13% in 2016. Regions had to cover the remaining cost with their own resources.

**Table 2. Distribution of additional expenditures to finance the presidential decree by source: Evaluation (bln. Rubles)**

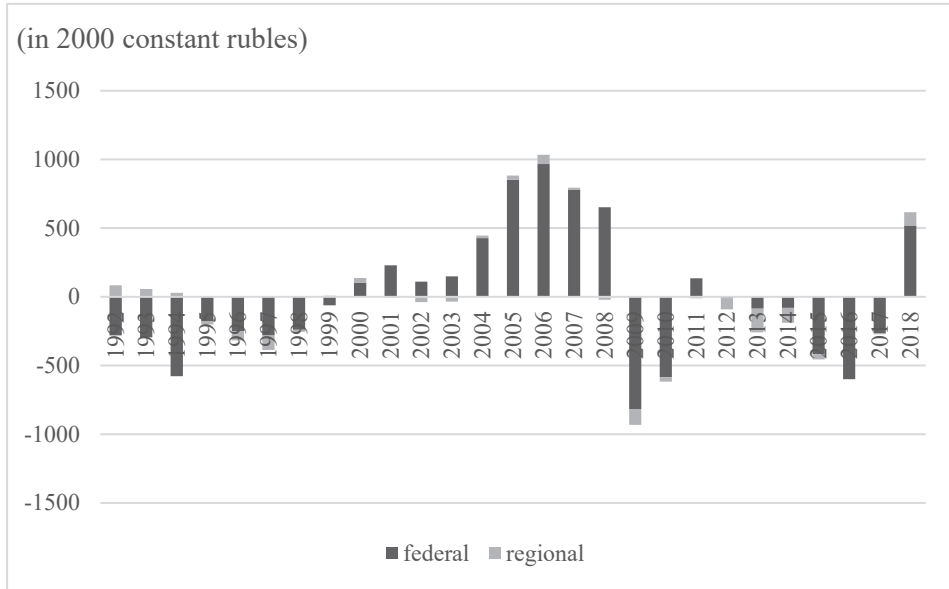
	2012	2013	2014	2015	2016
Increase of expenditure to achieve 'Presidential decree' (nominal, in comparison with 2011)	263	524	658	734	734
Finance by federal budget		147	200	127	99
Finance by regional budget and own resource of regional organization	n.a.	377	458	607	634
Contribution of federal budget in finance of additional expenditure, %	n.a.	28.1	30.4	17.3	13.5

Source: АКИНДИНОВА, et al., 2016, p.39.

Due to the presidential decree, many regional governments faced financial crises<sup>12</sup>. As Figures 4 shows, regional budget deficits grew sharply from 2012 to 2014, while the federal budget deficit shrunk. To cover the budget deficit, regions became more dependent on debt. Figure 5 shows how regional debts increased in 2012. Debts since 2012 have been more dependent on loans from commercial banks, which often come with rather high interest rates, than regional bonds (Figure 6). This rapid increase in bank loans to regional governments will burden these governments with high repayment costs.

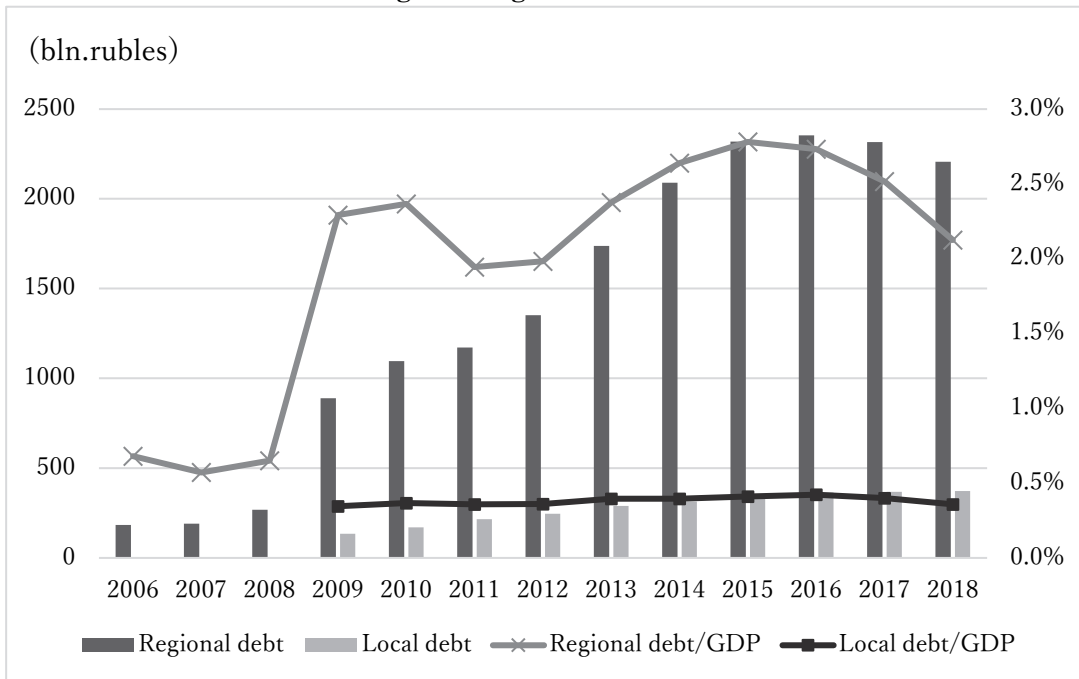
The federal government, facing the issue of regional debts, admitted to the problem. Deputy Prime Minister, Dmitry Kozak, has made no statement about the existence of excessive social responsibility for regional government in mid-2016. According to this statement, there are currently more than 500

**Figure 4. Federal and regional budget balance**



Source: Author's calculation using data from the Russian Statistical Agency website.

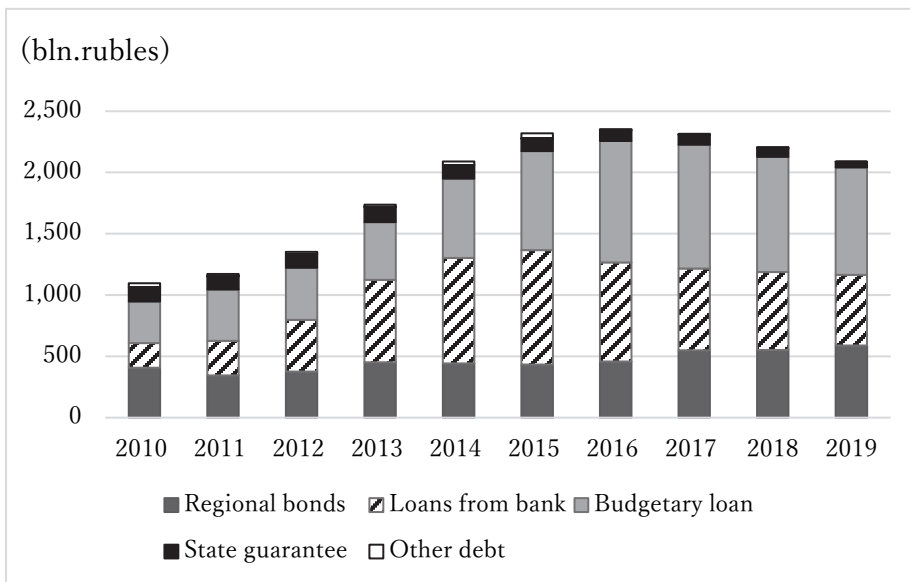
**Figure 5. Regional and local debt**



Source: Russian Ministry of Finance.

expenditure obligations without enough financial resources in Russia, including those caused by the presidential decree of May 2012 (Kouznetsova, 2018). Therefore, the federal government started increasing budget loans with lower interest rates to regions and promoted the refinancing of regional government bank loans via cheap budget loans (Figure 6).

**Figure 6. Composition of regional debt**



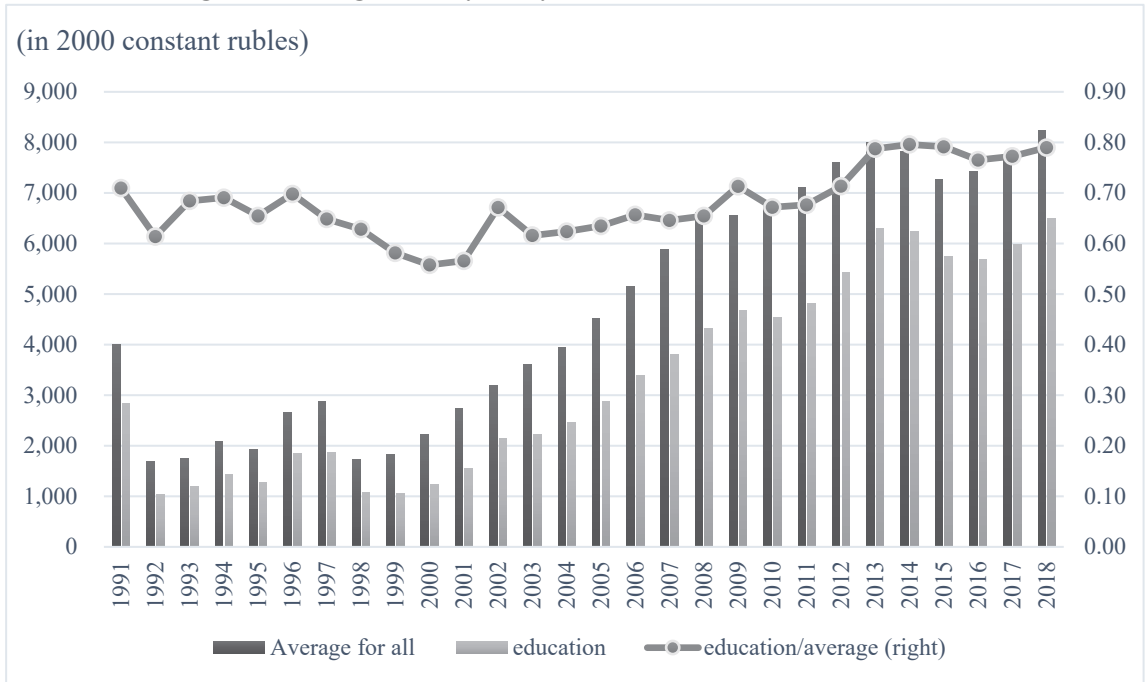
Source: Russian Ministry of Finance.

However, both regional budget deficits and debt began to shrink after 2015, as the figures show. Regions owe this improvement largely to tax increases in recent years, especially in CPT, though they also tightened their expenditures. These results indicate that the presidential decree of May 2012 was abandoned as early as 2015. Figure 7 shows change of workers' salaries in the educational field. According to the presidential decree, wages for schoolteachers had to be raised to the average level of each region in 2012, in cases of general school teachers; wages for teachers of other categories had to be raised to the regional average by 2018, at the latest. However, actual wage levels for teachers, though they raised sharply in 2013, have never exceeded 80% of total average wage.

The wage level for staff in other social fields, such as healthcare and culture, increased until 2014, though it dropped after 2015 and, ultimately, returned to the 'pre-presidential decree level' (Акиндинова, et al., 2016, pp. 40-41). In some cases, the governments met the wage increases by cutting the number of workers (Акиндинова, pp. 37-38)<sup>13</sup>.

Thus, Putin’s administration intended to raise popular support through a policy to reward workers in budgetary sectors, though it failed—at least at this moment—because they imposed too much burden on the regional governments, which are responsible for those expenditures.

**Figure 7. Average monthly salary of workers in the educational field**



Source) Russian statistical agency website.

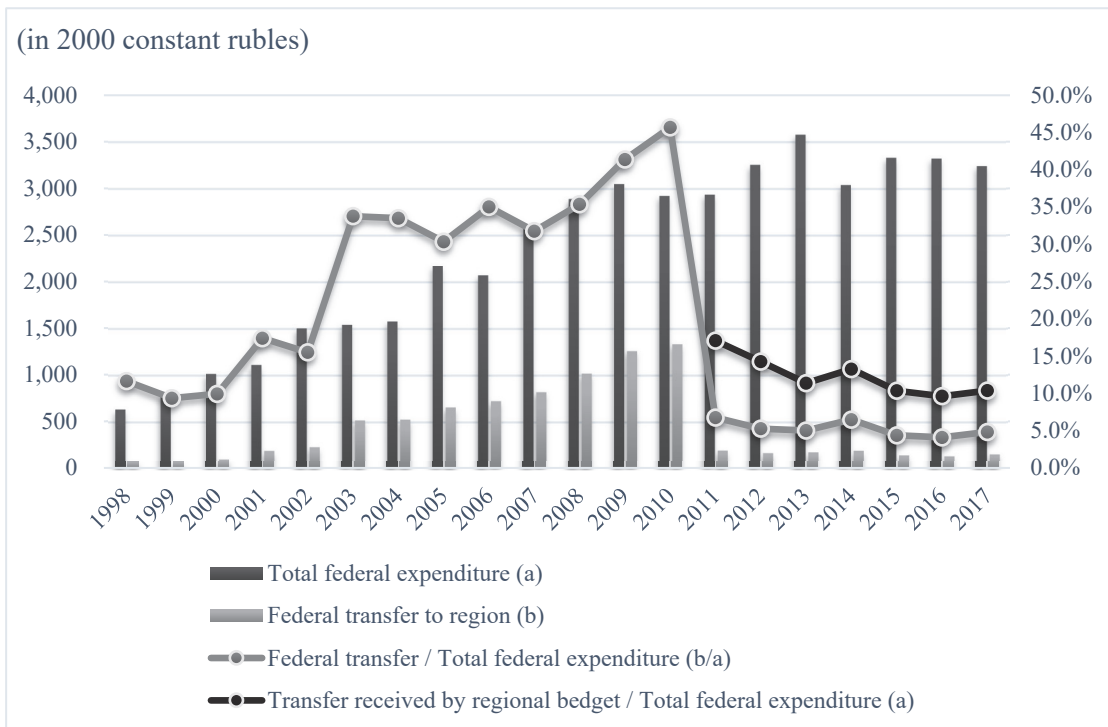
## 5. Did fiscal centralisation strengthen the state integration in Russia through public finance?

How did fiscal centralisation under the Putin administration affect the regional disparity in fiscal capacity? Did the federal government, which acquired more fiscal resources, strengthen revenue redistribution among regions, thus diminishing the regional inequality? Moreover, did the Russian government realise the more equal public service provisions for its people? If we take the hypothesis, regarding the presence of social contract between state and civil society in Russia—that assumes people accept the current political regime in exchange for economic benefit—centralisation could possibly lead to more redistribution to benefit Russian people economically. Concerning this issue, Zubarevich (2015) has pointed out that regional economic disparities in Russia have decreased through the 2000s because of the large-scale redistribution by federal transfers, which were based on the increased oil and gas revenues. In this section, we also address whether the centralisation of fiscal resources under the Putin regime helped to correct the

disparity among regional budgets and whether it realised an equal provision of public services to citizens, based on official data of the Russian Ministry of Finance and Federal Treasury.

Figure 8 indicates flows of fiscal transfer from the federal to regional governments in Russia. Russian federal transfers include five different kinds of subsidies and grants, both conditional and unconditional. Figure 8 illustrates the sum of all transfers. It is shown that the share of transfers in the federal expenditure sharply increased in 2003, occupying 30-35% of the total federal expenditure. Then, in 2009 and 2010, when the Russian economy was hardly damaged by the global financial crises, the share rose to 40-45%. Unfortunately, the Ministry of Finance changed the method of statistical reporting of federal transfers in 2011, and it began reporting only unconditional transfers of the same statistics, making it difficult for us to map the change. If we look at only unconditional transfers, its amount becomes only 5% of the federal expenditure. However, if we calculate the amount of total federal transfers, based on regional fiscal statistics, the federal transfers dramatically decrease to about 10% of GDP, as Figure 8 shows.

**Figure 8. Size of federal transfer to region**



Source) Author's calculation using data from the Russian Ministry of Finance, Federal Treasury of Russia.

This means that the federal government has strengthened regional redistribution of fiscal resources, at least since the beginning of the 2000s, when the Russian economy began to grow, continuing until 2010

under the economic crises, based on the increased tax revenue. However, in the 2010s, when the economic growth slowed down—even going negative under the economic sanction by western countries—the redistribution had remarkably fallen. Therefore, how did these changes in federal transfers affect the regional disparity of fiscal capacity?

**Table 3. Regional budget disparities of revenues per resident with and without federal transfers**

(in rubles)

	1997 (N=88)		2007 (N=86)		2017 (N=83)	
	Tax and Non-tax revenue, p.c.	Total revenue, p.c.	Tax and Non-tax revenue, p.c.	Total revenue, p.c.	Tax and Non-tax revenue, p.c.	Total revenue, p.c.
Average	2,539	3,319	25,381	41,286	61,616	83,630
Median	1,493	2,018	17,204	25,588	43,121	54,810
MAX	28,471	28,499	225,495	362,336	418,696	611,088
MIN	157	1,012	1,817	14,412	8,812	33,945
Standard deviation	3626.0	3948.7	30243.3	54229.7	66695.1	89841.4
C.V.	1.43	1.19	1.19	1.31	1.08	1.07

Note) Data for 1997 excludes the Chechen Republic. Autonomous Okrugs were separate from their states for each year.

Number of federal subjects has decreased because of the consolidation of several regions.

Source) Author's calculation using data from the Russian Ministry of Finance, Federal Treasury of Russia.

**Table 4. Gini coefficient for regional revenue per resident**

	1997	2007	2017
Tax and Non-tax revenue	0.467	0.440	0.414
Total revenue	0.417	0.422	0.370
Change in Gini coefficient after federal transfer	-0.050	-0.018	-0.044

Source) Author's calculation using data from the Russian Ministry of Finance, Federal Treasury of Russia.

Tables 3 and 4 present the disparity among regional budget revenues per regional resident for 1997, 2007, and 2017. Table 3 shows data of tax and non-tax revenue, as well as total revenue, including federal transfer per resident for each region. Tax and non-tax revenue refer to regional government revenues before receiving federal transfers, and we can observe that the coefficient of variance for tax and non-tax revenue has decreased from 1.43 in 1997 to 1.08 in 2017. This change indicates that tax reforms to the revenue sharing, between the federal and regional governments since 2000, helped diminish the inequality in tax revenue between regions, especially because the natural resource tax—which is extremely unevenly distributed geographically—was concentrated in the federal budget. Conversely, coefficient of variance

for the total revenue of regional budget, after receiving the federal transfer, shows a more complex trend: it rose from 1.19 in 1997 to 1.31 in 2007 but dropped to 1.07 in 2017. Interestingly, C.V., for total revenue, was bigger than for tax and non-tax revenue in 2007. Table 4 shows the Gini-coefficients for regional tax, non-tax revenue, and total revenue, based on the same data as Table 3. According to Table 4, Gini-coefficient for tax and non-tax revenue tends to decrease, as seen in Table 3; thus, regional inequality in pre-transfer revenue has diminished. However, Gini-coefficient for total revenue has risen from 0.417 in 1997 to 0.422 in 2007 but dropped to 0.370 in 2017, showing the same trend as C.V. in Table 3.

Therefore, as long as the Gini coefficient indicates, disparity in post-transfer revenue of regional budgets is smaller than the pre-transition revenue in every year, and federal transfers seem to have some equalising effect. However, it is curious that the equalising effect in 2007 was so modest, despite the redistribution to regions being bigger than in other years. To clarify this reason, further analysis of the Russian transfer system, from institutional and actual perspectives, would be required. It is also noteworthy that the equalising effect in 2017 was even smaller than in the 1990s, when the intergovernmental fiscal relationship was more decentralised. Thus, fiscal centralisation under the Putin regime did not always strengthen fiscal redistribution among regions. It has realised some equalisation regarding pre-transfer tax revenue of regions, though the federal transfer system's size and distribution method poses challenges.

Therefore, we might ask what effect the fiscal federalism reforms had on public service provision at the regional level. We examined the case of education, namely elementary and secondary education, which is provided and financed at the local and regional levels. This study analysed the case of elementary and secondary education, because they are prescribed by a federal law on education as an obligatory process for Russian citizens<sup>14</sup>. This means that the government has to guarantee a certain standard of education, concerning curriculum and staff, for all children throughout Russian territory. This will cause a demand for financial support from the federal government to many regions where the regional and local governments lack fiscal resources. Therefore, tax revenue centralisation could possibly lead to equal educational spending at the regional level.

Total education spending in Russia was about 3% of GDP in 2000, though it has increased thereafter, staying around 4% of GDP in recent years. Table 5 shows the disparity in educational spending through consolidated regional budgets per resident under 16-years-old. We review selected years from 2002, the beginning of the Putin presidency, to 2014, and consider the educational spending of each region, divided by the number of regional residents under 16-years-old. In Russia's education system, the cost of higher education is mostly covered by the federal budget, while pre-school and general school education are financed at the regional and local levels. The coefficient of variation in Table 5 indicates that regional disparity in public spending on education increased from 2002 to 2008, before declining through 2014.

From these results, we can note a tendency in public service provision, similar to that in regional revenue, though our analysis is limited to education. Specifically, the regional disparity tended to grow in the first decade of the 21st century and then decreased in the 2010s. In spite of strong control over regions and the centralisation of fiscal resources under the Putin regime, the federal government's redistribution effect did



not strengthen while the Russian economy boomed during an upsurge in oil prices. However, the government has attempted to vitalise redistribution since the global financial crisis and slowdown in Russia's economic growth.

**Table 5. Disparity in education spending by consolidated regional budget:  
Per resident under 16 years old**

	2002	2004	2008	2011	2014
Average (ruble)	16,008	23,692	14,746	80,030	108,574
Median (ruble)	11,849	17,036	10,165	62,434	86,524
MAX (ruble)	90,735	180,925	136,392	359,410	478,284
MIN (ruble)	3,942	4,049	2,395	26,908	42,531
Standard deviation	14,849	23,218	18,653	55,051	72,204
Coefficient of variation	0.93	0.98	1.26	0.69	0.67
Ratio of top to bottom	23.02	44.69	56.94	13.36	11.25
Number of region	89	89	84	83	83

Note: Author attempted calculations for every 3 years from 2002-2014, but data for 2005 are unavailable.

Data for some regions, which were integrated later into bigger subnational jurisdictions, were summed up according to their new status.

Source: Calculated by author using data from the Russian Treasury Service and Russian Statistical Yearbook.

## 6. Conclusion

As our analysis is based on limited data, a more inclusive analysis is required to come to a conclusion. Nevertheless, we reach the following tentative conclusions from the above analysis. First, fiscal centralisation under the Putin regime did not strengthen redistribution among regional budgets as much as we expected. The size of fiscal transfer from the federal to regional governments increased in the 2000s, but it has decreased again in the 2010s, returning to the level of the late 1990s.

Second, even the increase in the federal transfer to regions has not always helped correct regional disparity in fiscal capacity. Actually, in the period when federal transfers increased in the 2000s, regional inequality in revenue and education spending grew, contrary to our expectation. If we look more precisely, inequality among regional revenues, i.e. tax and non-tax revenues, has been diminishing over the last 20 years because of the tax reform. However, the equalising effect of the federal transfer became even smaller after 2000 than in the 1990s, when Russia's intergovernmental relationships were more decentralised. Therefore, the main objective of the federal transfer may not have been to correct regional inequality. We need a deeper analysis of the Russian intergovernmental transfer system to verify this.

It is interesting that the regional disparity has shrunk during the 2010s, compared to the 2000s, regarding regional revenue and educational spending. We could understand this trend as the Russian government

not needing to strengthen fiscal redistribution among regions during the time when Russia's economy could enjoy a high growth rate and Putin's administration could easily obtain popular support. However, in a phase of economic downturn after the world economic crisis, the government might face the necessity to redistribute more fiscal resources to improve public service provision at regional levels to maintain public support for the current regime. This is a tentative conclusion, and we need a deeper analysis of the Russian fiscal system, both statistically and institutionally.

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## Notes

<sup>1</sup> For details, see the author's previous article: yokogawa (2001).

<sup>2</sup> According to the Levada Center, President Putin has continuously kept a popularity rating as high as 80%, even reaching 85% after the annexation of Crimea by Russia in 2014. However, the rating has dropped to 60%, following the government's June 2018 announcement introducing pension reform (<http://www.levada.ru/>).

<sup>3</sup> Debardeleben (2003) stated that if we look at the attitude of residents, it is difficult to see any impact of fiscal transfers on their political stance toward the incumbent president. Debardeleben's statement was based on the opinion poll at the time of presidential election in March 2000.

<sup>4</sup> Rosia Touou Keizai Kenkyusyo (2000) pp. 29-40.

<sup>5</sup> Федеральный закон от 06.10.2003 N 131-ФЗ 'Об общих принципах организации местного самоуправления в Российской Федерации'.

<sup>6</sup> Moses (2017) p. 967.

<sup>7</sup> If 2007 is used as an example, 96% of total tax revenue in Russia was from federal taxes, and only 3% was regional taxes; 1% was local tax (De Silva et al., 2009, p. 66).

<sup>8</sup> According to the old principal law on taxation, enacted in 1991, there were 7 regional taxes and 23 local taxes. However, after the introduction of the Tax Code in 1998, and its following amendments, three taxes (corporate property tax, gambling business tax, and transportation tax) are classified as regional tax and only two (land tax and personal property tax) are considered local tax.

<sup>9</sup> See Yokogawa (2005, 2010).

<sup>10</sup> Указ Президента РФ от 7 мая 2012 г. N 597 'О мероприятиях по реализации государственной социальной политики'.

<sup>11</sup> According to the decree, the wages of teachers of general schools must have been raised to the average level in each region in 2012, while the wages of teachers of pre-schools had to be raised by 2013, and

that of teachers of primary and secondary vocational schools and staffs of cultural facilities by 2018. Wages for doctors, teachers of higher vocational schools, and researchers had to be increased to 200% of the regional average by 2018.

<sup>12</sup> Зубаревич (2014) Акиндинова, Чернявский, Чепель (2016).

<sup>13</sup> The number of doctors in 2015 decreased by 6% compared to 2011; the number of middle medical staffs decreased by 5%, and that of university professors by 18.5% (Акиндинова, et al., 2016, pp. 37-38).

<sup>14</sup> See Russian Federal Law on education. Федеральный закон от 29.12.2012 N 273-ФЗ 'Об образовании в Российской Федерации', Статья 66 (5) Начальное общее образование, основное общее образование, среднее общее образование являются обязательными уровнями образования.

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