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## The Idea of Subsidies in the New Russian State Policy

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### Abstract

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The main goals of social and economic modernization, manifested by the Russian government in social policy have been studied. The basic cause of Russia losing its advantages in the social policy implementation is outlined. The Federal Law on the reform in the public sector has been analyzed. The shortcomings and problems affecting the introduction of this law into effect have been detected.

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### 1. Introduction

The relevance of this work is due to the fact that socio-economic modernization plays an important role in the implementation of the idea of innovative development and modernization of the national economy. Prosperity rise is not only the result but is also the prerequisite of economic growth. At the present globalization stage the solving of all the problems of neo-industrialization cannot occur without the modernization of the social sphere: education, culture, health care. Everything is done by the man, and the future of our country depends on what kind of conditions has been created for him.

### 2. The development of state's social policy

The main goal of social policy is to harmonize social relations through the design and implementation of measures concerning the economics organization, scientific and technical progress,



morality and legislation, which are supposed to regulate these relations. It actively influences the determination of priorities in the development of well-being, the extent of social support of different social strata, creating socially guaranteed conditions for the life of the Russian population. Social policy regulates the activity of such components of the society, as a system of social protection, health care, education, culture, labor and employment, migration service, pensionary and other funds and organizations. Social policy should counteract any manifestations of social egoism, parasitism and dependency, and claim the principles of social solidarity and equity. A developed social policy is one of the most important indicators of the progressive development of society. In a number of western European countries today there is a state model characterized by a partial regulation of the economy, the priority of social sphere development and a sustainable focus on the welfare of all population groups. This model prevails in the countries with social democratic and socialistic governments (Sweden, Denmark and others.). The ideological backgrounds of a welfare state were created by the US economist Galbraith and theorists of social democracy. Their conceptions recognize the need for the state's regulating the economic life in order to redistribute income in favor of workers, the erasing of social inequality. Apologists of the welfare state focus on a mixed economy, a combination of private and public sectors, strengthening the regulatory functions of the state in different spheres of life. Their opponents are representatives of neo-conservatism, who seek to limit the scope of government intervention in the economy and cut down social expenses.

The activities of the welfare state concern, above all, the social sphere: social protection of the population and social security, health care and education, labor security and employment options, housing and public utilities, state support for science and arts.

The Russian Constitution proclaimed Russia a welfare state whose policy is aimed at creating conditions for a dignified life and free development of the person.

### **3. Allocation of funds for public sector organizations.**

Now let us try to evaluate the mechanisms for providing financial resources for the public sector organizations of the national economy, which are subject to reform, and to determine how this mechanism corresponds to the definition of public goods as a socio-economic category. In our opinion, the categories of "public goods" and "state and municipal services" must correlate.

In accordance with the basic concept of the federal law "On the reform of public institutions" (Federal law # 83-FZ dated 08.05.2010) the state has the right to establish restrictions in free services provision (public goods).

In the public sector theory the definition and classification of public goods is given (Ponamorenko, 2011). As it is widely assumed, all economic benefits are divided into *public* and *private*. Public goods are those being the main result of the activities in the public sector of the economy, these are goods consumed by each community member free of charge, i.e. at the expense of the state. These are so-called pure public goods. These goods possess such important characteristics as non-competitiveness and consumption non-excludability. Public goods are characterized by large positive external effect. However, for a whole number of goods the specified properties (non-excludability and non-competitiveness) may be only partially relevant. Then this is the case of mixed goods. Mixed goods can

be overloaded or excluded from consumption. The mixed nature of these goods also suggests the possibility of a mixed funding form (Livshic, 2009).

Since there is no function of individual demand for public goods (due to the non-competitiveness), the formation of market relations in the sphere of their provision is not possible. In the absence of the market it is very difficult to determine the need of the society for these goods. This can be done only through a political mechanism.

Another category of goods and services provided by the state free of charge are some private goods. They are considered to be like this because they are consumed individually (health care, education, etc.), but provided by the state through taxes and insurance premiums (Atkinson, Stiglic, 1995).

Many research papers treat this kind of private goods that the state provides to any individual, as mixed public goods. However, it is more likely referred to as socially important private goods.

Goods are called socially important if they tend to have an explicit positive external effect. These goods are also called special value goods. These goods normally include social welfare services and social security, health care, culture and education.

Socially significant content makes these three groups of goods similar and encourages the society to regulate their consumption.

We believe that for the reform to take effect one must allocate private goods into a special group. We would include herein cash transfers for population, i.e. some legally confirmed state obligations in the form of money. It may be some social payments, allowances and pensions. Then all these goods: pure, mixed and private, which are provided for the public free of charge, will represent the cumulative integral potential of public goods. These goods are provided by taxes and other revenues of the budget, as well as the state social fund. This cumulative integral potential of public goods can be regarded as an objective function of three arguments: availability of goods for the population; quality of goods offered to the public; a sufficient amount of goods, and all of these will reflect the well-being of society and every individual, and at the same time contribute to economic growth.

Depending on these three arguments the objective function will be different, since the value of the goods of each argument is not constant. But it will be effective for us when it is to strive for its highest, maximum value.

If to select the maximum value of the total integral index of free public goods as the criterion of mechanisms effectiveness of providing financial resources, this mechanism would create such amounts of financial resources that are needed to achieve the maximum value of this index or the objective function on the one hand. On the other hand, there should be a steady growth in the volume of goods at the expense of social organizations and the certain goods production for which there is a demand, at state-owned enterprises financed from the budget.

The social function of the state and municipal body can reach its maximum value only when the state carries out the appropriate fiscal, social, economic and tax policy. The legislative framework should also aim at achieving this goal.

As it was stated above, in accordance with the basic conception of the federal law "On the reform of public institutions", the state has the right to establish restrictions on the provision of free services (public goods). Excessive consumption of these goods above the state-set scope, will be payable for the

population. Then all the goods of pure, mixed and private character will lose their values of social (free of charge) goods and will become marketable. The state will also be the product's producer and the regulator, which on budgetary account limits the population's consumption of any goods.

This reform is system-wide. It affects everything, and, above all, the role of the "social state" of Russia; the reform touches upon the economic interests of the country's population, boosts up the changes in inter-budgetary relations in the budgetary process.

Thus, the reform has defined the financial mechanism of providing goods and services to the population. But there is no legal basis yet. At the regional level is necessary to introduce a large number of regulations that would regulate the reform of institutions of education, health, culture and so on.

Analyzing the government's conception of the public sector institutions' financial support and the new financial mechanism formation, it can be concluded how the activities of new budget institutions will be provided:

- Funding of new budget institutions is supplied downwards, and takes effect only when there are some directly established state and municipal tasks, which are, in fact, the decisions of the state and municipal authorities, which also act as main distributors of budget's finances.
- The budget provides subsidies for each institution only according to the tasks approved from above.

Thus, the budget process is completely dependent on the myriad of directive tasks on the service provisions. This process is declared to involve the mechanism of competitions, tenders for the supply of public goods in their actual set where there are stated so many positions, that it will be very difficult or impossible to plan, forecast and take them into account at the level of decision-making body. We have already mentioned the problems concerning the outlining of the society's real demand for public goods. Since there is no market mechanism of their supply, the demand for them is determined subjectively, through the political mechanism of social choice. And this means that the bureaucracy is entitled to make that choice on behalf of the society. This reform does not solve this problem. The power of the bureaucracy is even more enhanced.

#### **4. Features of financing of public goods sector organizations**

The new system of financing public goods sector organizations, being the result of the introduction of the Federal Law # 83-FL can be characterized as a very intricate official bureaucratic pyramid, in which there are great opportunities for corruption. But this is just what the Russian government is combating. In our view, this pyramid could destabilize the public sector of the economy, reducing the growth of public goods. And this, in its turn, will undermine the country's financial system and jeopardize the entire policy of both technical and social modernization of the national economy.

If to touch upon such sector as health care, the consequences of the reform after the introduction of this law can make a real threat: "... the state may face the problem of lack of funding for unrestricted demand ... if the state will be deprived of the principle of estimated funding the new tools of limited demand will be needed" (Chirkunov, 2011).

To remedy the stagnant component of the ongoing reform, especially concerning the public sector economy organizations, it is necessary to:

1. Carry out the amount of public institutions' funding both through the state task and the additional estimated financing. This will on the one hand determine the transparency of the funds used, and on the other hand will reflect the volume of public investment in human capital. Currently, as a result of the reform, there appeared problems with the financial support of the budget and autonomous institutions, which are financed only within the framework of the set task through subsidies. This enables the adjustment of both the task and the amount of funding. In its turn, the determination of the state task amount, and hence the determination of the demand for public and socially important goods, remains the function of the bureaucratic apparatus. The only way out for budgetary institutions in this situation is to increase the volume of payable services for the public with the use of the same resources, used to supply the free services. This contradicts the very principles of social policy, and, consequently, social modernization.

2. Leave intact the old mechanism of state-owned institutions of earning extra money from income-generating activities, while maintaining the intended use of income for the modernization of these institutions; in addition, the payroll must be replenished from these activities, considering the relatively low wages in the budgetary organizations.

The reform of public institutions was practically launched after July 1, 2012, at the end of the so-called transition phase. However, the problems, which provoked so much talk in the previous period, still remained and even reinforced due to weak legislative base and mismatch with other legislative acts. More and more the true purpose of the reform became visible – the desire of the state to relay the social function onto the backs of local authorities and the population itself. Suffice it to say that within the overall federal budget expenditure the share of education expenditures in 2012 decreased by 12% compared to 2010, and that of health care – by 8% (Bobrova, 2012).

In our opinion, in the health care sector today it is necessary to solve the problem of replacing the obsolete equipment in the municipal medical organizations, "to increase the degree of social orientation of the national health system" (Rozmainskij, 2011). As noted by D. Krivtsova, "according to WHO estimates, the fairness of population's financial contributions to the Russian health care system put it onto the 185th place out of 191 ..." (Krivtsova, 2009).

Despite the ongoing measures on social policy taken by the Russian government, today we are witnessing massive absolute income poverty, housing poverty, excessive and unfair economic and social disparities.

Inadequate social policy of the Russian government has also led to the fact that the authorities lost control, and there is a lack of organization of civil society, social indifference and apathy to what is happening in the country. "The downside of this process is uncontrolled omnipotence of bureaucracy and restrictions of civil liberties, accompanied by loss of control over economy and society development" (Gubanov, 2012).

What are the conditions of cardinal changes in social processes, according to Russian government's plans? As noted by S. Drobyshevsky and S. Sinelnikov-Murylyov while analyzing the material "Main directions of budgetary policy for 2013 and the planning period of 2014 and 2015". "... the costs of

national defense, national security ... are increasing in real terms, and the expenditures primarily reduced are those related to investments in human capital (health, education) ... spending on social policy remains practically unchanged " (The main directions of fiscal policy for 2013 and 2014 & 2015, 2014). We believe that if the government does not revise the articles of expenses towards their increase, one can hardly expect good consequences in society after their introduction.

Imperfect social policy can be explained by the fact that "in our country, the current situation is determined by a number of specific features and circumstances. First of all, the potential of the resource export model is exhausted and the economy has entered a recessive state. This is accompanied with the rapid change in world's prices for energy and other raw materials, prevailing in the total gross of Russian export ... The Western sanctions factor also emerged. The draft budget for the next year is difficult to take into account a variety of economic and financial consequences of economic sanctions imposed by the US and the EU towards Russia, which is defending its sovereignty in the international sphere. Scarcity of resources constrains the opportunities to achieve previously set goals at the national level .... " (Seleznev, 2015).

At the same time, Professor A. Akayev said: "The strategy "Innovative Russia-2020"... declares: "Russia has put forward ambitious but achievable goals for long-term development – ensuring a high level of welfare ... The only possible way to achieve these goals is to switch the economy onto innovative socially-oriented model of development, ... where the key targets are: accumulating the human potential in the field of science, education, technology and innovation. It is planned to increase by 2020 the expenditures on education up to 6.5-7% of GDP, on health care – up to 6%" (Akaev, 2012). So we hope that all this will happen, and Russia will become a country with high rates of economic growth due to effective technical and social modernization. "But it is possible in a qualitatively new fiscal model of macro-regulating of economy and social spheres" (Seleznev, Cherednichenko, 2013).

## **5. Conclusion**

It is hypothesized that the factors of social culture, such as welfare and health, can be among the resources of modern neo-industrialization and serve as its capital. It is proved that the reform of the budgetary organizations at the present stage of development is inefficient, as many of the problems remained and even increased due to weak legislative base and mismatch with other legislative acts. More and more the true purpose of the reform became visible – the desire of the state to relay the social function onto the backs of local authorities and the population itself. Social reforms undertaken by the Government of Russia will never meet the expectations of most people, unless the governmental documents related to the reform of social policy are amended and changed. There has been made an attempt to prove the negative consequences for Russia that would arise if our state continues to be subsidiary. The population expects more from social reform, and these expectations are not those of oligarchic groups, who have everything, but those of most of the population living below the poverty

line, having very low indicators of life quality. All social reforms will just never meet their expectations if amendments and revisions are not implemented.

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