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FORMATION OF AN EFFECTIVE REGIONAL BUDGET

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Abstract

The article discusses the problem of forming an effective budget at the regional level. The aim of the study is to establish the reasons for the underdevelopment of the regional budget system and to solve the problem of forming an effective budget system at the level of the constituent entity of the Russian Federation. The study uses a systematic approach of substantiating ways and methods of solving the problem of forming an effective regional budget. It applies general logical research methods and uses methods of generalization, analysis and modeling. The article justifies the role of large and medium-sized businesses in the development of material goods production in the region, since it is the production of material goods that is the main condition for the formation of an effective budget. Particular attention is paid to the nature and forms of small business development in the region. The development of small business should take place in the context of organizing the main vector of economic development, given by large industrial production. The article justifies the proposal to develop a program for the introduction of digital technologies both in the production process itself and in the process of organizing and managing production. This will result in increasing added value, increasing revenue from the sale of manufactured products and expanding the tax base in the region. Expanding the tax base is the main condition for increasing the efficiency of the regional budget.

1. Introduction

In modern conditions, regional budgets are very important for the socio-economic development of the country and the federal budget, since they contribute to strengthening the independence of the state in solving all problems within the country both at the level of the regional government and at the level of local self-government.

The budgets of constituent entities of the Russian Federation are an integral part of the country's financial system. World practice shows that regional budgets have peculiarities of formation in different federative states. There are different approaches to the formation of financial resources of constituent entities of the federation. These entities are allowed to have their sources of financing of expenditures carried out at this level of state power.

The main source of revenues for regional budgets is taxes. Therefore, the work of state bodies is important for the execution of the regional budget, whose functions are directly related to the formation and execution of the regional budget. Nevertheless, practice shows that there is no real mechanism of interaction between these bodies in the process of executing the federal budget, which is the main condition for the formation of an effective budget at the level of the constituent entities of the Federation.

2. Problem Statement

The practice of budgets functioning at the regional level shows that there are problems associated with formation and execution of the budgets of constituent entities of the Russian Federation. There is a need to improve the methodology for implementing interbudgetary relations. The constant shortage of financial resources at the regional level is becoming a factor hindering the economic development of the region. These problems indicate that the functions of regional budgets are being violated and that they need to be addressed.

3. Research Questions

Regional budgets in the Russian Federation are the most important instrument for the socio-economic development of the population and organizations. However, the budgets of the regions do not fulfill this role due to the constant deficit and imperfection of the mechanism for the implementation of interbudgetary relations. The presence of these problems in the federal budget execution system indicates the importance and necessity of solving these problems, which indicates the relevance of the topic of the article (Rakovsky, 2020; Yashina et al., 2019).

- Problems that need to be solved include budget deficit and constant financial support of regional budgets
- Application of the Soviet model of distribution and redistribution of budgetary funds to the regions in need.

4.   Purpose of the Study

The aim of the present study is to establish the reasons for underdevelopment of the regional budget system and to solve the problem of forming an effective budget system at the level of the constituent entity of the Russian Federation.

5.   Research Methods

It makes no sense to talk about the effectiveness of regional budgets in the Russian Federation, without considering financial assistance from the federal budget, since the bulk of expenditure obligations fulfilled by regional and local authorities are financed precisely from assistance coming from the federal budget (Abdulgalimov & Nikatuev, 2012).

The effect of the use of budget funds on the repayment of expenditure obligations imposed on the region is possible when the share of financial assistance to the regional budget decreases; and revenues, respectively, increase. This provision also applies to local budgets, since the financial resources necessary to cover the costs of social obligations of local authorities are always higher than the resources of local budgets collected from their own sources (Radaeva & Ozdamirova, 2019; Taran et al., 2019; Timushev, 2020). Therefore, financial assistance from the federal budget in many regions of the country plays a decisive role in the formation of regional and local budgets.

The efficiency of the regional budget execution depends on how this aid is used. Financial assistance from the federal budget should be used by regional authorities not only to finance the social sphere (Ermakova, 2020). In our opinion, conditions should be created for the development of the region's economy with the help of these funds. Therefore, there is a need to consider financial assistance from the federal budget not only as a means intended to pay the expenditure obligations of the regional budget, but also as a means for creating conditions for economic development. Financial assistance should be used as a generator of financial resources built into the financial system of the region. This is possible when these generated funds are invested in the economy to create conditions for economic growth, which implies the transition of the region to a state of self-financing (Dokhkilgova et al., 2019).

Consequently, it is necessary to create economic conditions for the regional budget to become an effective development tool. First, these conditions include the formation of the regional budget at the expense of funds received from our own sources (Vlasov, 2020). Since taxes are the main source of the budget, a policy should be pursued to ensure that regional budgets are provided with sufficient tax funds.

In table 01, we show the calculated data on the specific weight of budget revenues of one of the regions receiving financial assistance from the federal budget, the Chechen Republic. The data are given for the last three reporting years – from 2017 to 2019, based on which the calculation of the share of own income in the republic's GRP was compiled.

Estimated data were obtained based on the use of data on budget revenues, reflected in table 1.

Table 1. The share of own budget revenues and the share of financial aid in the GRP of the Chechen Republic

№	Indicators	2017	2018	2019
1	Total budget revenues (in current prices, thousand rubles)	69699704.3	67300953.8	73416282.1
2	Gratuitous receipts (at current prices, thousand rubles)	54115808.2	55569489.2	62327058.5
3	GRP of the Chechen Republic	154401405.0	166711252.0	180714997.0
4	Share of the budget in GRP (1: 3) x100	45.3	40.5	41. 6
5	Share of financial aid in GRP	35.0	33.0	34.5

Table 01 shows that the share of budget revenues in the Chechen Republic is 42 % for the period under study, which is much higher than the level of total taxation proved by economic science (30–33 %).

The economic literature provides various evidence of this position. One of the most widespread points of view on this problem is the results obtained by the American professor A. Laffer. His research is based on the idea of the need to reduce the high level of taxation (Chernik, 2007).

This point of view is shared by other authors who argue that the process of tax regulation is associated with the determination of the tax limit. Effective tax regulation of the economy can be carried out provided that the rate of the aggregate tax on corporate income does not exceed 33 %. Thus, in order to maintain an active tax policy, the government should withdraw only 33 % of the organization's net income to the budget. If the aggregate tax rate exceeds 33 %, then the state is faced with the problems of growing shortages of goods, rising prices, rising inflation and an increase in the budget deficit (Abdulgalimov, 2004).

The share of the budget in GRP, equal to 41.6 %, means that the current tax system in the Chechen Republic imposes a tax burden on the economy that exceeds the permissible limits for economic development. Therefore, we can say that over the period under study, the budget of the Chechen Republic is ineffective and cannot become a factor ensuring economic development.

In the fourth row of Table 01, we present data showing the share of financial assistance to the budget of the Chechen Republic in its GRP. These data make it possible to determine the role of subsidies and subventions in the budget of the republic. On average, the share of financial assistance to the Chechen Republic from the federal center in the GRP is 34 %, which is also above the permissible limit. The excess of budget revenues of the optimal limit indicates the inefficiency of the budget since the region's economy is under a high tax burden.

A contradiction arises related to the inefficiency of the budget. Firstly, high budget revenues are ineffective because their nature is associated with high taxation. Secondly, low budget revenues are ineffective since their nature is associated with an underdeveloped economy and a narrow tax base.

In subsidized regions, no matter how the level of taxation is raised, we will not receive high incomes for one simple reason that high tax rates reduce economic activity. As a result, the tax base is narrowing. In the Chechen Republic, a region with a high subsidy component in the budget, the republican budget is ineffective.

6. Findings

In order to prove the correctness of our reasoning about the effectiveness of the budget, we propose to consider a conditional example that includes all the necessary information. This study makes it possible to determine the effectiveness or inefficiency of the regional budget. The example makes it possible to determine whether there are conditions or reserves for turning the budget into an institution that ensures the economic growth of the region.

As mentioned above, an effective budgetary policy is implemented when the share of budget revenues is in the range from 30 to 33 % of the GRP. If the share of the budget is higher than this level, then the tax, respectively, and the budgetary policy of the region is ineffective, since the aggregate tax rate exceeding this size leads to a reduction in the taxpayer's income and, accordingly, to a decrease in his solvency.

Let us give a conditional example of budget efficiency, the conditions of which are reflected in Table 02. In this case, the indicators that determine the conditions of the example are: GRP, the size of the revenue side of the budget, the difference between the GRP and the regional budget.

Table 2. Conditions for the effectiveness of the region's budget

№	Indicators	1	2	3	4	5	6	7
	1	2	3	4	5	6	7	8
1	GRP, %	100	100	100	100	100	100	100
2	Regional budget in % to GRP	20	30	40	50	60	70	80
3	Difference between GRP and regional budget in % (page 1 – page 2)	80	70	60	50	40	30	20

The first condition of the example is GRP. Its size is determined by years, as equal to 100 %.

The second condition is the approximate share of the regional budget (sufficient to cover all budget expenditures) in the GRP. At the same time, the share of the budget is set in an increasing amount to show how the budget efficiency changes under the influence of changes in the size of the regional budget.

The third condition is the difference between the GRP and the share of the budget in the value of the GRP, obtained by calculation.

To analyze the budget, we take the data reflected in column 2 of Table 02. The regional budget for this column is 20 % of the GRP, and the difference between the GRP and the budget is 80 %. This suggests that the region's economy can create GRP, in which only 20 % is the budget of this region, which can fully cover all the regional expenses reflected in the expenditure side of the budget. In this case, the region's GRP is sufficient to ensure expanded reproduction of the region's economy and ensure high rates of economic growth. This means that the size of the budget fits into the 33 % limit of the level of taxation of income of taxpayers in this region, which provides the latter with the opportunity to carry out not only reimbursement of production costs but also the accumulation of funds. If it is an organization, then for the establishment of innovative products, and if it is an individual, then for the best satisfaction of personal needs.

A further decrease in the ratio of the budget and GRP may have not a positive, but a negative effect. A smaller share of the budget in the GRP may result from a reduction in the economic development of the region, and, accordingly, the size of the GRP itself. Then the ratio itself narrows and the quotient from the division is insignificant, i.e., the ability of the budget to play the role of a factor of economic growth is negligible.

If we take the data in column 3 of Table 04, then the budget is equal to 30 % of the GRP. In this case, the size of the budget is also within the limits allowing the economic growth of the region and the satisfaction of the needs of taxpayers – organizations and individuals.

The data in columns 4, 5, 6, 7, 8 are, respectively, 40, 50, 60, 70, 80 %. Thus, over these years, the share of the budget in GRP exceeds the optimal level of 33 %.

Exceeding the optimal level of the budget to GRP ratio means that the economy is experiencing a decrease in value-added, which is the result of the activities of all economic entities operating in the region. This leads to a reduction in the regional budget since the added value is the result that determines the amount of income of the taxpayer and the object of taxation of almost all taxes in the tax system of the state. For example, taxes such as corporate income tax, personal income tax, the object of taxation of which is not value-added, are paid only as a result of the creation and sale of added value. The development of added value, as a newly created value, makes it possible to create a wage fund, a depreciation fund at an enterprise, make a profit, and accumulate at the expense of net profit. In this regard, it should be said that in conditions when the ratio of the budget and GRP exceeds the permissible level, the problem of the economy lagging arises, which results in a reduction in value-added. Ultimately, this leads to a reduction in the budget itself. However, the practice of economic development of many constituent entities of the Russian Federation indicates that, due to economic backwardness, their budgets are formed mainly through financial assistance from the federal budget (Igonina, 2020; Levina, 2020).

Thus, in the Chechen Republic, the budget formed based on its funds is not able to solve the socio-economic problems of the region, since these funds are far from sufficient to fulfill the expenditure obligations of the republic.

To analyze the ratio of the republican budget and its GRP, Table 03 shows data characterizing this ratio for the last three reporting years. Table 03 shows data on the consolidated budget of the Chechen Republic for the period from 2017 to 2019, considering financial assistance from the federal budget.

Table 3. Analysis of the effectiveness of the budget of the Chechen Republic

№	Indicators	2017		2018		2019	
		Amount, in million rubles	Specific weight, in %	Amount, in million rubles	Specific weight, in %	Amount, in million rubles	Specific weight, in %
	1	2	3	4	5	6	7
1	GRP of the Chechen Republic	154401.4	100	166711.2	100	180715.9	100
2	Budget revenues of the Chechen Republic	69699.7	45.1	67300.9	40.3	73416.3	40.6
3	Difference between GRP and budget (page 1 – page 2)	84701.7	54.9	99410.3	59.7	107299.6	59.4

The data in Table 03 show the excess of the permissible level of the ratio of the republican budget to its GRP. In 2017, the largest difference between the optimal and real level of this ratio was found, and it is 12.1 % = (45.1–33 %). In subsequent years, this difference decreases somewhat but remains at an economically inexpedient level. Exceeding the maximum budget level in the republic has been achieved, as already mentioned, at the expense of subsidies from the federal budget. In this case, the excess of the budget is not the result of the economic development of the region, but the administrative decision of the higher governing bodies. In this regard, we can say that the economy of the republic and its budget have no internal connection, i.e., the budget does not depend on the development of the economy of the region. For the budget to become a factor of economic growth in the republic, it is necessary to develop a system of measures, the application of which can lead to the development of the republic's economy and the formation of a budget that ensures their optimal ratio between the regional budget and its GRP (Koroleva, 2020). Establishing the optimal ratio between these indicators is, in a way, a starting point for developing a budget for the socio-economic development of the region.

7.   Conclusion

As a result of the study, it was found that to form an effective regional budget, it is necessary to take the following measures:

- development of large and medium-sized production on the territory of the republic, since it is in such a large-scale organization of production that the main vector of economic development of the region's economy should be realized;
- the development of small production should take place in the context of the development of the main vector of economic production, given by large production. It is in this way that it is possible to create on the territory of the republic innovative production at the level of small production, financed by large production, which is subsequently introduced into large industrial production. This is to ensure the consistency of the economic development of the region;
- to develop programs for the introduction of digital technologies not only in the production process itself but also in the process of organizing and managing production. This will ensure the production of high-quality, high-tech goods that can compete in the global market.
- education, training of highly professional personnel to work on modern technology with the use of modern technologies for processing information and raw materials, which are the factors of modern production.

The consistency of the economic development of the region, based on the development of large-scale production and innovative small business, will provide the constituent entities of the Russian Federation with their financial resources, which will ensure the formation of an effective budget – a factor in the socio-economic development of the region.

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