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**FISCAL RESOURCES AND FISCAL AUTONOMY:
RUSSIAN EXPERIENCES**

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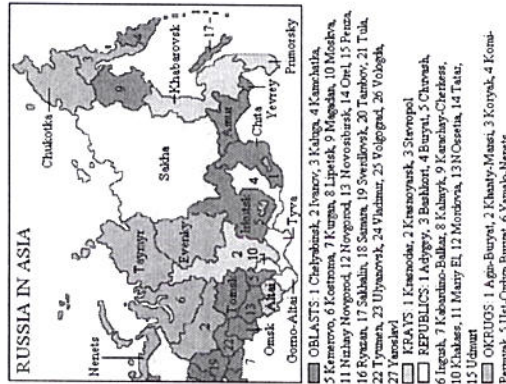
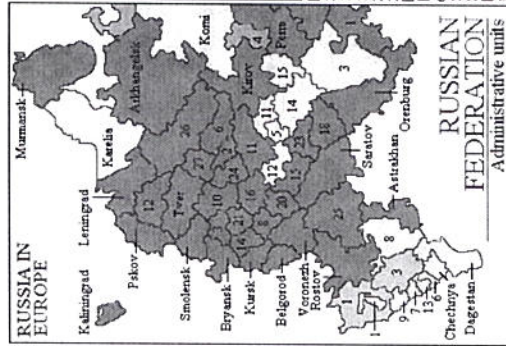


Fiscal Resources and Fiscal Autonomy: Russian Experiences

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- 1 Chelyabinsk, 2 Ivanov, 3 Kaluga, 4 Kamchatka, 5 Kemerovo, 6 Koptovka, 7 Kurgan, 8 Lipetsk, 9 Magadan, 10 Moskva, 11 Nizhny Novgorod, 12 Novgorod, 13 Novosibirsk, 14 Orel, 15 Penza, 16 Ryazan, 17 Sakhalin, 18 Samara, 19 Sverdlovsk, 20 Tambov, 21 Tula, 22 Tyumen, 23 Ulyanovsk, 24 Vladimir, 25 Volgograd, 26 Vologda, 27 Yaroslavl
- 1 Kraiys 1 Krasnodar, 2 Krasnoyarsk, 3 Stavropol
- 1 Republiks 1 Adygey, 3 Bashkort, 4 Buryat, 5 Chuvash, 6 Ingush, 7 Kabardino-Balkar, 8 Kalmyk, 9 Karachay-Cherkess, 10 Khakass, 11 Mury El, 12 Mordovia, 13N Ossetia, 14 Tatar, 15 Udmurt
- 1 Okrugos 1 Aga-Buryat, 2 Khanty-Mansi, 3 Koryak, 4 Komi-Fermyak, 5 Ust-Ordyna Buryat, 6 Yukalo-Nenets

• Russia is an interesting case if one attempts to understand the pathologies of the design of fiscal federalism

- De-jure, since 1994 Russia has been a highly centralized federation with fiscal revenue autonomy of subnational jurisdictions strongly restricted by the federal government
 - (Almost only) federal decision-making on tax rates and bases (although a significant number of shared taxes)
 - (Only) federal tax collection and (generally) law enforcement
 - (Technically only) the Federal Treasury as the mechanism to settle the fiscal flows between budgets
 - In addition, a sophisticated system of federal grants
 - A dual federation
- De-facto, things were very different, as one could expect in a country with very limited rule of law
- Under Yeltsin: high informal decentralization
- Under Putin: fast track to a very high centralization up to a unitary state (but real extent of regional power unclear)
- What can we learn from the Russian experience - having more general questions in mind?

- Lesson 1: Rules determining the allocation of fiscal revenues are important, but more important is their implementation
 - Strategic tax collection in Russia (Libman and Feld 2009)
 - Regional governments "capture" local tax authorities
 - Local tax authorities manipulate the tax collection and monitoring effort in the favor of the regional government
 - An even simpler way: non-legal local acts (up to 30% of all acts and almost all regional constitutions)!
 - Incentives within the federal bureaucracy are crucial, and more important than design of region-center relations (as the Putin's recentralization partly also showed)
 - A similar path: unitary Kazakhstan

- Lesson II: Formal taxation is important for the budget autonomy, but quasi-voluntary contributions are more important
 - A country of huge tax avoidance and evasion: "looking for animals in the zoo"
 - But, on the other hand, more than 70% of Russian companies claim to have provided "some assistance" to the regional governments (Yasin et al. 2010)
 - Regions often finance their endeavors (and also use the rent-seeking) through direct control over companies and "voluntary" help of business
 - In exchange: sheltering from federal taxation and "state-corroding federalism" (Cai and Treisman 2004), even under Putin
 - Tax evasion done in agreement with the tax authorities: conscious mistakes in the tax reporting (Paneyakh 2008)
 - Once again, incentives within the federal bureaucracy (this time the law-enforcing agencies)

- Lesson III: Fiscal autonomy matters for the process of democratization, which has an impact on the fiscal resources available
 - Multiplicity of political regimes in a federation rather a rule than an exception
 - Federal government can use the grant system to pressure the opposition in regions, also the "tragic brilliance" of Weingast (2009)
 - In Russia: in spite of the formal structure, transfers are used to support the loyalty or to pacify the rebels (Treisman, 1996; 1998; Popov, 2004; Jarocinska, 2004)
 - Regional governors can use the financial resources at hand to elimate potential challengers
 - And it does matter for economic performance of subnational jurisdictions or on the resource curse effects and therefore for the tax revenue generated in this economy