

Varazdin Development and Entrepreneurship Agency
in cooperation with
University of Aveiro
University North
Faculty of Management University of Warsaw
Faculty of Law, Economics and Social Sciences Sale - Mohammed V University in Rabat



Economic and Social Development

43rd International Scientific Conference on Economic and Social Development –
"Rethinking Management in the Digital Era: Challenges from Industry 4.0 to Retail Management"

Book of Proceedings

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THE SOCIAL WELFARE POLICY: COMPARATIVE ANALYSIS OF THE BUDGET EXECUTION EFFECTIVENESS OF THE RUSSIAN FEDERATION AND PORTUGAL

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ABSTRACT

A satisfactory and benevolent level of social welfare which turns out to be one of the primordial mandates and fundamental functions of any country is in some way dependent on a certain number of factors that have both direct and indirect impact on it. In this respect, one of the predominant mechanisms that provide for a decent boost of life quality is represented by the financial system of the country which, in its turn, is built upon the budget system. The objective of this research lies in the comparative analysis of the budget execution effectiveness of the Russian Federation and Portugal in terms of the social welfare policy implementation in a three-year dynamic – from 2015 to 2017. For the purpose of endorsing a scientific research method to identify the expenditures share in the GDP of the two countries, have been calculated the index of the public sector performance (PSP) and the index of the public sector efficiency (PSE) which comprise and string the underlying elements of social welfare and the budget expenditures sections of the analysed countries related to them. The results show that the state budget of Portugal maintains a more socially oriented policy, whereas the state budget of the Russian Federation is noticeably directed to the economic growth accomplishment and national defence stability. Apart from that, the state budget of Portugal is differentiated by a larger degree of effectiveness in terms of social welfare growth. The research work has certain distinguishing features of novelty as no similar analysis held upon the comparison of the state expenditures of the Russian Federation and Portugal from the perspective of social welfare policy implementation has ever been performed.

Keywords: *Expenditures Effectiveness, Portugal, Social Welfare, State Budget, The Russian Federation*

1. INTRODUCTION

One of the primordial objectives of the modern state budget policy of any country lies in the perpetual improvement of the budget system, its crucial elements that influence directly or indirectly the process of securing the progressive promotion of the social welfare quality of the population and social policy implementation. That is why it is of importance that the budget resources are to be executed diligently and effectively which led to the choice made on the topic of the final qualification paper, and the set objectives and mandates of the research. The main objective of the research is to perform a comparative analysis of the execution effectiveness of the federal budget of the Russian Federation and the state budget of Portugal from the perspective of social welfare policy implementation.

In order to achieve the aforementioned objective a literature review of Russian and European authors' scientific papers was made related to the respective topic as well as a review of the budget legislation of the Russian Federation and Portugal was considered. Besides that, the share of all items of expenditures in the total gross domestic product (GDP) of the two countries was calculated. Moreover, the indicator method introduced by the Portuguese scholars Afonso, Schuknecht and Tanzi was included in the research to estimate the effectiveness and to obtain the opportunity to compare the budget execution performance of the Russian Federation and Portugal from the point of view of social welfare growth. At its core two integral indicators are placed: the index of the public sector performance (PSP) and the index of the public sector efficiency (PSE) which comprise and string the underlying elements of social welfare and the budget expenditures sections of the analysed countries related to them. The practical value of the actual research entails the results in the form of a fundament that may be used for future comparative analysis of other countries as well as for more detailed analysis of the state budgets of the Russian Federation and Portugal.

2. LITERATURE REVIEW

The maintenance of a high level of social welfare of any country by being one of its principal mandates and functions is in certain dependence on various factors that influence it directly and indirectly. In this regard, one of the fundamental mechanisms that allows a given country to improve the life quality of the population is represented by the financial system of the country which, in its turn, is based on the budget system composed of a certain number of centralized funds of financial resources that are called budgets (Komyagin, 2017). Nowadays, a whole variety of notions for the state budget are popular and all of them open up its meaning from the physical, economic and legislative perspective. According to Dement'ev (2017), the physical aspect characterizes the budget system as a financial resources fund that is subject to governmental management and public and legislative structures under it. Moskovtsev (2018) by observing budget as an economic category defines it as a set of economic relations that appear in the process of creation, allocation and execution of the state centralized funds of financial resources. From the point of view of Komyagin (2017), the budget, in the legal aspect, is a law developed by an executive body of state or municipal authority in accordance with current legislation, reviewed and approved by a representative state body, approved and signed by the head of a state or municipal entity. Thus, it can be emphasized that the state budget is a multifaceted concept, the diversity of interpretation of which is due to its multidimensional functional values. And it is important to note that over time there is a tendency to expand the concept of the budget by transferring its value from the expression of a form to the content (Dement'ev, 2017). The budget, by being the central element of the country's budget system and, as a consequence, concentrating the basis of its financial resources, performs a number of fundamental functions, one of which is to ensure the social welfare of the state (Averkiva, 2014). The concept of social welfare was first formulated in the 18th century by one of the founders of classical economic theory, A. Smith, who noted that the level of well-being depends on the level of labour productivity and is proportional to the needs of the population (Efimova, 2015). Subsequently, the definition of social welfare was modified depending on the emergence of new economic schools and, accordingly, new approaches. Thus, the representatives of the neoclassical school – A. Marshall, A. Pigou, G. Sedgwick – believed that social welfare is only a means to sustain a person's life, to satisfy their needs and develop their abilities and qualities. While utilitarian scholars, such as V. Pareto, P. Samuelson, I. Bentham, L. Nash, argued that social welfare is the welfare of individual members of society. Followers of the social approach, such as R. Stoltzmann, R. Stammmler, O. Spann, stressed that social welfare is a combination of non-economic factors that are fundamental for socio-economic development and progress (Brusova & Achylov, 2014).

Today, social welfare is closely related to the concept of public goods – education, health, economic regulation, law and order, protection of public interests, civil rights and freedoms, that is, services and functions that cannot be provided by the market and paid for by every citizen separately. Thus, the society actually “acquires” these benefits from the state, for funds that form budgets in the form of taxes and other payments (Efimova, 2015). Based on this, it will be considered the budget systems of the Russian Federation and Portugal as a whole, as well as from the point of view of the implementation of social welfare policy.

2.1. The budget system of the Russian Federation

The structure of the budget system reflects the economic state of a country at a particular stage of its development and depends on its state structure (Moskovtsev, 2018). The Russian Federation, according to The Constitution of the Russian Federation (1993), is a democratic federative legal state with a republican form of government. Currently, the country consists of 85 regions – subjects of the Russian Federation. All this indicates that the modern budget system of the Russian Federation is based on the principles of administrative-territorial division.

2.1.1. General review of the budget system of the Russian Federation

The budget system of the Russian Federation, according to the Budget Code (1998) of the main legal act regulating the budget system of the country, is based on economic relations and the state structure of the Russian Federation, the aggregate of the federal budget, budgets of the subjects of the Russian Federation, local budgets and state extrabudgetary funds regulated by law. Thus, the budget system of the country is a three-tier system. The draft federal budget, as well as the budget of a constituent entity of the Russian Federation, are drawn up for a period of three years – the next financial year and the planning period. The financial year in Russia corresponds to the calendar year. The interaction between the parts of the three-tier budget system of the Russian Federation is built on the basis of intergovernmental relations, which represent the relationship between public legal entities on the regulation of budget legal relations, the organization and implementation of the budget process. The key role of intergovernmental relations is the formation, distribution, redistribution and regulation of budgetary powers and sources of their support. The main instruments of inter-budget regulation in the Russian Federation are the established standards for tax deductions to local budgets, as well as intergovernmental transfers. Intergovernmental transfers are funds provided by one budget of the budget system of the Russian Federation to another budget. These transfers, in turn, are included in the budget expenditures items, the classification of which we will consider in more detail in the next section, as well as analyse how the federal budget funds are implemented to achieve growth of the social welfare (Budget Code of the Russian Federation of 31.07.1998 №145-FZ, 1998).

2.1.2. Expenditures of the federal budget of the Russian Federation

According to the Budget Code of the Russian Federation (1998), the classification of expenditures of the federal budget involves the division of expenditures into the following groups: The classification of the state budget expenditures involves the division of expenditures into the following groups: (i) general public services; (ii) national defence; (iii) public order and safety; (iv) national economy; (v) housing and collective services; (vi) environmental preservation; (vii) education; (viii) culture and cinematography; (ix) health; (x) social services; (xi) sport; (xii) mass media; (xiii) public debt operations; (xiv) transfers within the general government. Considering the budget system of the Russian Federation from the point of view of implementing the concept of social welfare, it is worth noting that it is implemented through the main items of budget expenditures that were listed above, as well as through the state programs.

The state program, according to Единый портал бюджетной системы Российской Федерации (2019), is a strategic planning document which contains a set of planned activities that are interconnected in terms of objectives, implementation dates, performers and resources, and public policy instruments that ensure the achievement of the governmental policy priorities and objectives in the field of socio-economic development and national security of the Russian Federation. Today, the following five state programs are being implemented in the Russian Federation: (i) a new quality of life; (ii) innovative development and modernization of the economy; (iii) national security; (iv) balanced regional development; (v) an effective state (Портал государственных программ Российской Федерации, 2019).

2.2. The budget system of Portugal

Portugal, according to the country's Constitution (1976), is a democratic state based on the rule of law, the sovereignty of the people, plural democratic expression and political organization, respect for and a guarantee of the effective exercise of fundamental rights and freedoms. The form of the government is a presidential-parliamentary republic, the form of the state is unitary. The country includes territory on the mainland of Europe, which historically includes Portugal, as well as the Azores and Madeira archipelagos, which are autonomous regions with their own political and administrative laws and institutions of self-government.

2.2.1. General review of the budget system of Portugal

According to the main law governing the budget system of the state – Budget Law №151/2015 (2015) – the budget of Portugal is unitary, covers all revenues and expenditures of the entities that constitute the central management and social security subsector, and is implemented on the basis of eleven budget principles. The state budget of Portugal is the central part of the country's two-tier budget system, which also includes the social insurance budget and the budgets of autonomous institutions. The budget system of the country includes the budgets of the municipalities – the second level of the budget system – and the budgets of the autonomous regions of the country: the Azores and Madeira archipelagos – which, in turn, are subdivided into the regional budget and the budgets of the municipalities. The interaction between all parts of the budget system of Portugal is based on the observance of the principles of fiscal stability and mutual solidarity. In this regard, according to the Budget Law of Portugal, local budgets, as well as the budgets of the autonomous regions of the country may require funding from the state budget, subject to compliance with the commitments made by the state under the social protection system. Budget transfers are considered when drafting the state budget, that is, at one of the stages of the budget process, and are considered when planning expenditures, which we will take a closer look at in the next subsection.

2.2.2. Expenditures of the state budget of Portugal

According to Article 49 of the Budget Law of Portugal №151/2015 (2015), the state budget expenditures, in terms of financial investments of the country, are associated with debt obligations, special allocations, financing of the state business sector, budget transfers. Expenditures of the state budget of Portugal can be classified according to the functional characteristics, as well as to the relevant governmental programs. Expenditures of the state budget of Portugal, according to the functional classifier, which we consider including in the empirical part of this study, are divided into: (i) general public services; (ii) national defence; (iii) public order and safety; (iv) education; (v) health; (vi) safety and social services; (vii) housing and collective services; (viii) cultural, recreational e religious services; (ix) agriculture and livestock, forestry, fishing and hunting; (x) industry and energy; (xi) transport and communication; (xii) trade and tourism; (xiii) other economic functions; (xiv) public debt operations; (xv) transfers within the general government; (xvi) not elsewhere classified.

Considering the issue of achieving a high level of social welfare in Portugal, it is important to note that the country, by being a member of the European Union, is implementing the Mediterranean European Social Model for economic progress and the development of social infrastructure on its territory (Mathieu & Sterdyniak, 2008). This model is characterized by the predominance of pension payments in social transfers, a high degree of segmentation of beneficiaries according to their status (Sapir, 2006).

3. RESULTS

In modern conditions, ensuring the sustainability of the state budget system, which is an important condition for the growth of social welfare, is directly dependent on the efficiency of the expenditures side, which is the primary task of this study. For its implementation, we define the share of expenditures of the federal budget of the Russian Federation and Portugal in the gross domestic product. Three years are taken for the analysed period – from 2015 to 2017.

Table 1: The expenditures share of the federal budget of the Russian Federation in GDP (Author's own elaboration on the base of Единый портал бюджетной системы Российской Федерации (2019) & The World Bank Group (2019a))

Type of expenditures	Executed, % of GDP			Change 2017 to 2015	
	2015	2016	2017	units	%
General public services	1,217	1,312	1,134	-0,083	93,184
National defence	3,494	4,521	2,782	-0,713	79,605
Public order and safety	2,297	2,274	1,871	-0,427	81,424
National economy	2,439	2,757	2,399	-0,040	98,351
Housing and collective services	0,138	0,087	0,117	-0,021	84,433
Environmental preservation	0,053	0,076	0,090	0,037	171,299
Education	0,678	0,716	0,600	-0,078	88,485
Cultural and cinematography	0,102	0,105	0,087	-0,015	85,627
Health	0,433	0,606	0,429	-0,004	98,978
Social services	4,738	5,495	4,868	0,130	102,742
Sport	0,081	0,071	0,094	0,013	115,972
Mass media	0,090	0,092	0,081	-0,009	90,394
Public debt operations	0,658	0,744	0,692	0,034	105,100
Transfers within the general government	0,687	0,805	0,771	0,084	112,177
Total	17,106	19,659	16,014	-1,092	93,615

Note: Since the relative values of % are discreet, three digits after comma are used in this table

Based on the data presented in Table 1, it can be concluded that from 2015 to 2017, the priority areas of the federal budget expenditures in the Russian Federation are on social policy, national defence and national economy, since their share is the highest in the total GDP value of the country. In addition, it is important to note that the financing of social policy tends to increase, which is a favourable sign from the point of view of the implementation of social welfare policy. This cannot be stated about such items of expenditures as education and health care, which are reduced during the period under review. In turn, in Portugal, the state budget shows the opposite trend: education and health are among the top three most funded items of expenditures after social policy (Table 2). However, as in the Russian Federation, the share of these costs from 2015 to 2017 is declining, giving primacy to production and economic areas of expenditures. Thus, it can be concluded that despite the fact that the share of expenditures of the federal budget of the Russian Federation in the country's GDP is significantly higher compared with the same indicator in Portugal, in general, the state budget of the second from 2015 to 2017 has a more socially oriented character, since more active financing of those areas is detected which makes up social welfare.

Table 2: The expenditures share of the state budget of Portugal in GDP (Author's own elaboration on the base of Direção-Geral do Orçamento (2019) and The World Bank Group (2019a))

Type of expenditures	Executed, % of GDP			Change 2017 to 2015	
	2015	2016	2017	units	%
General public services	0,743	0,749	0,752	0,009	101,148
National defence	0,829	0,782	0,740	-0,089	89,284
Public order and safety	1,412	1,369	1,307	-0,105	92,597
Education	2,998	3,095	2,965	-0,033	98,890
Health	3,780	3,800	3,562	-0,218	94,232
Safety and social services	6,047	5,880	5,560	-0,487	91,953
Housing and collective services	0,048	0,061	0,037	-0,011	76,860
Cultural, recreational and religious services	0,051	0,057	0,118	0,067	229,579
Agriculture and livestock, forestry, fishing and hunting	0,171	0,180	0,182	0,011	106,378
Industry and energy	0,005	0,048	0,006	0,001	120,248
Transport and communication	0,081	0,301	0,364	0,284	452,278
Trade and tourism	0,007	0,007	0,007	-0,001	90,553
Other economic functions	0,140	0,164	0,149	0,009	106,463
Public debt operations	3,147	3,183	2,897	-0,250	92,063
Transfers within the general government	2,119	2,112	1,941	-0,179	91,563
Not elsewhere classified	0,000	0,000	0,000	0,000	0,000
Total	21,579	21,788	20,586	-0,992	95,402

Note: Since the relative values of % are discreet, three digits after comma are used in this table

In order to evaluate the efficiency of using the funds of the state budgets of the analysed countries, it is necessary to calculate the PSP (Public Sector Performance Index), proposed by the Portuguese authors and based on the performance indicators of the following activities of the state: law and order, education, health stability and economic development. This index consists of two integral indicators: the indicator of "Opportunities" and the indicator of "Musgravian" – which are determined by seven areas of the governmental activity to ensure the growth of social welfare (Afonso, Schuknecht, & Tanzi, 2006). The database for their calculation was made with the help of studies conducted within the framework of the World Economic Forum and presented in reports on international competitiveness from 2015 to 2017: law enforcement agencies, organized crime, independence of the court, protection of property rights, quality of higher education, life expectancy, modernization of urban infrastructure. The "Musgravian" indicator includes indicators that characterize the income distribution of the population, the stability of the economic growth and the level of economic development: the Gini coefficient, the inflation rate, the rise in the value of the gross domestic product, the unemployment rate. The indicators used to calculate the PSP government expenditures performance index are given equal weight. Values are normalized, and the average is one.

Table following on the next page

Table 3: Public sector performance indicators of the Russian Federation and Portugal (Author's own elaboration on the base of Schwab and Sala-i-Martin (2015; 2016; 2017), Federal State Statistics Service (2019) and Portdata (2019))

Indicator	Sub-indicator	2015		2016		2017	
		RF	Portugal	RF	Portugal	RF	Portugal
Opportunity indicators	Administration	0,79	1,21	0,83	1,17	0,85	1,15
	Education	0,96	1,04	0,97	1,03	0,98	1,03
	Health	0,94	1,06	0,93	1,07	0,94	1,06
	Infrastructure	0,61	1,39	0,64	1,36	0,70	1,30
Musgravian indicators	Distribution	1,10	0,90	1,11	0,89	1,11	0,89
	Stability	-2,86	2,86	2,86	1,35	1,05	0,95
	Economic performance	-2,50	0,40	0,17	1,83	0,74	1,26
	PSP	-0,14	1,27	1,07	1,24	0,91	1,09

Based on the data presented in Table 3, it can be concluded that the level of efficiency of public expenditures in Portugal is higher compared with the Russian Federation: the difference between the indices in 2015 was 1,41 units in favour of Portugal. However, by 2017, this difference decreased by 1,23 units or 87,23%. Considering, in particular, the dynamics of the indicators that make up the index, it is important to note that in 2015 Portugal showed more successful results in all the parameters studied. The only exception was the income distribution indicator based on the Gini coefficient. For the entire analysed period, this indicator in relation to the Russian Federation was higher compared with Portugal. In addition, in 2017, Russia “caught up” in yet another indicator – stability, since indicators such as inflation and GDP growth increased significantly in 2017 compared to 2015. The changes in the governmental expenditure’s performance index in the Russian Federation are more dramatic compared to Portugal, where this indicator is changing more smoothly. However, in Portugal, changes are occurring in a downward trend. While in Russia we can see an increase of the indicator in a positive trend. However, it is important to note that the PSP index makes it possible to assess the results of the state’s activities, ignoring the size of the state budget expenditures on the main directions of implementing social welfare policy. The PSP is a relative figure that only allows to compare results between countries or regions. In order to analyse the state budget expenditures from the point of view of their effective use in favour of improving the quality of life of the population, it is necessary to calculate an index that links the main indicators of social welfare and specific items of state budget expenditures. Such an index is the government expenditures efficiency index (PSE). This index as well as the governmental expenditures performance index consists of two integral indicators: the indicator “Opportunities” and the indicator “Musgravian” – which also include seven areas of government activity to ensure a high level of quality of life for the population (Afonso, Schuknecht, & Tanzi, 2006). In this regard, the effectiveness of public expenditures on law enforcement is calculated considering the item of expenditures on national security and law enforcement. Achievements in the field of education are associated with budgetary expenditures on education, a similar model works in relation to expenditures on health care. The provision of public infrastructure is compared with the cost of transport and communications. These indicators constitute the integral indicator of “Opportunities” In turn, the “Musgravian” indicator includes such indicators as expenditures on transfers and subsidies and total state budget expenditures.

To calculate the PSE index, the budget expenditures were normalized by country, taking the average value equal to one for each of the above-mentioned expenditures categories.

Table 4: Public sector efficiency indicators of the Russian Federation and Portugal (Author's own elaboration on the base of Единый портал бюджетной системы Российской Федерации (2019), Direção-Geral do Orçamento (2019) and The World Bank Group (2019b)

Indicator	Sub-indicator	2015		2016		2017	
		RF	Portugal	RF	Portugal	RF	Portugal
Opportunity indicators	Administration	-8,94	0,60	1,16	0,61	1,30	0,75
	Education	-2,66	1,29	0,35	1,31	0,37	1,52
	Health	-1,48	1,42	0,26	1,39	0,24	1,64
	Public infrastructure	-13,14	0,14	1,33	0,46	1,38	0,68
Musgravian indicators	Distribution	-3,54	1,19	0,51	1,17	0,63	1,31
	Stability	-6,38	0,88	0,88	0,85	0,96	1,03
	Economic performance	-2,49	1,31	0,36	1,30	0,41	1,49
PSE		-5,52	0,98	0,69	1,01	0,75	1,20

Based on the data in Table 4, we can conclude that Portugal more effectively executes the state budget in terms of expenditures on the main components of social welfare, since during the period under review the PSE index was significantly higher than in the Russian Federation. In addition, due to the low PSP in 2015, triggered by high inflation rates and low GDP growth rates, the government expenditures efficiency index also showed negative results. However, during the entire analysed period, this index increased, thus approaching the Portuguese value. In addition, the PSP index from 2015 to 2017 increased by 22,45%. Considering the areas of public expenditures that make up the PSE index, we note that in 2017 the Russian Federation was more effective in such areas as ensuring law and order and improving the quality of infrastructure. The state budget of Portugal was more effectively executed in such areas as education, health care, income distribution, stability and economic development.

4. CONCLUSION

Summarizing the work, it can be concluded that the budget systems of the Russian Federation and Portugal have a number of certain differences. The distinctive components are, firstly, defined by countries with different state systems, the budget systems of the analysed countries are of different levels: in the Russian Federation it consists of three levels, and in Portugal – of two. Secondly, the draft budgets of the first level are prepared for different time frames: in the Russian Federation – for one regular year and two years of the planning period, in Portugal – for one regular year. Thirdly, at a time when in the Russian Federation one classifier of expenditures is envisaged, in Portugal, their number is two. Fourth, the main items of expenditures in the analysed countries differ not only in quantity – 14 versus 16 in the Russian Federation and Portugal, respectively – but also in the objective functions: however, 10 articles do possess similarity. From the point of view of budget expenditures for the implementation of social welfare policy, it is important to note that in both the Russian Federation and Portugal, social expenditures are the priority area. Moreover, in the Russian Federation, these expenditures occupy a larger share in GDP than in Portugal.

However, the state budget of Portugal is of a more socially oriented nature, since the items of expenditures following the social policy are expenditures on education and health care, while in the Russian Federation on public security and the economy. From the point of view of the effectiveness of the use of the budget funds for the growth of social welfare, it was found that Portugal is more successfully coping with this activity, as evidenced by the higher integral indicators of PSP and PSE. Thus, the task has been accomplished, and the results can be further used as a basis for a more detailed analysis.

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