

Fiscal decentralization and local incentives: evidence from Russia

Abstract

In recent decades, many countries around the world, including Russia, have demonstrated fiscal decentralization trend, the effectiveness of which is associated with the fulfillment of a number of theoretical conditions discussed in this paper. Particular importance is given to the concept of “hard” budget constraints, according to which subnational authorities are able to show high financial discipline. At the same time, we note a growing interest in the model of “hourglass federalism,” in which the regional level of government moves to the “coordinator” position, and the budgets of municipalities, especially large cities, become more autonomous and independent. In this regard, our study focuses on the cities of Russia: unified standards for deductions from federal and regional taxes to the budgets of urban districts, which are established by regional authorities, were collected and analyzed for the period 2010-2018. Through our material observations, we have noted that in terms of the “constraints” under consideration, regional authorities in Russia are prone to instability, and the tax autonomy of Russian cities is at a relatively low level, which in aggregate does not correspond to the concept of “hard” budget constraints. Possible indicator of “interest” of local authorities, expressed in the form of development of small and medium-sized businesses in the region, did not confirm the correlation with the volatility of tax standards in city budgets, but this does not eliminate the need to take into account the recommendations proposed in the paper on introducing changes to the system of inter-budgetary relations in Russia