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**ROLE OF THE LOCAL GOVERNMENT IN PROVISION OF  
PUBLIC GOODS: A CASE STUDY OF BAYANDAI DISTRICT,  
RUSSIAN FEDERATION**

**BY**

**OKTYABRINA KHAYKHADAEVA**

**SUPERVISOR:**

**MARJA JARVELA**

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## **Abstract**

The local government is that level of government which is the most close to people (voters). Among all levels of government, it is the best informed about local needs and preferences. It should play significant role in the provision of local public goods. In this work it is studied how in practice the local government in the Russian Federation fulfills its tasks, namely what role the local government plays in the provision of educational and health services.

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# **1. INTRODUCTION**

## **1.1. Federalism – Russian style**

The development of the Russian federalism in the 1990s and 2000s resembled what one may call a “decentralization-recentralization” cycle. The 1990s was the period of collective bargaining and increasing the autonomy of the regions, period of bilateral treaties and extreme decentralization. During that period, the Russian government had to bargain with strong regions to get their loyalty, often unilaterally changing the legislation, introducing protectionist measures for the internal market and withholding taxes. (Libman, 2009) During this period, the provision of public goods was decentralized. Very often the responsibility for providing public goods was delegated to the local government without adequate financial provision. This resulted in a considerable decrease in the quality of public goods.

Since 2000, the re-centralization trends in the development of the Russian federalism have been obvious. The autonomy of the regions has been gradually reduced and federal control over the regions has been re-established. This trend of re-centralization also impacted the provision of public goods, as it was consequently re-centralized. Taking into account the fact that the anarchic decentralization of the 1990s threatened the wholeness of the country by its disintegration, some degree of centralization was absolutely necessary. Moreover, some degree of centralization with regard to the provision of public goods was also necessary. However, in its move towards re-centralization, Russia seems to have crossed the equilibrium point and moved further in the direction of centralization. This, in turn, risks turning Russia into over-centralized country. In a situation of extreme centralization of the provision of public goods, the voices and preferences of

the citizens are not always taken into account and their demands for public goods consequently are not fully met. Hence, one might suggest that contemporary Russia needs to carefully and gradually – not spontaneously - move back towards decentralization.

## **1.2. Education and health care as public goods**

In the present study, education and health care are considered as public goods. As public goods, they shall be provided publicly by the government. In the following, I shall provide a set of reasons for why these services should be provided publicly and why the government should be involved in their provision.

As for education, it should be mentioned that theoretically speaking, education is not a pure public good, as it can be provided both publicly and privately, yet there are good reasons supporting its public provision. First of all, there are positive externalities associated with having an educated citizenry. A society in which everyone can read and write is more likely to function more smoothly than a society with only a few literate citizens. (Stiglitz 1988, p.372)

Secondly, education has significant impacts on the life-chances of a child. There is a widespread belief that the life-chances of a child should not depend on the wealth of her/his parents. (Stiglitz 1988, p.372)

Thirdly, the public provision of education is especially important for developing countries. What separates the more developed from the less developed countries, among other things, is a big gap in knowledge. That is why investments in education and technology by the government are so

important in the developing countries. (Stiglitz 2006, p. 28) For example, in most East-Asian countries, the government played a very active role in the provision of education. They expanded both the primary and higher education acknowledging that success requires both universal literacy and a cadre of highly skilled individuals capable of absorbing advanced technology. The East-Asian miracle shows that rapid development and growth with equity are possible. Indeed, these countries achieved both growth and stability. (Stiglitz 2006, p.31-32)

Fourthly, development is not only about transforming economies, achieving economic growth, development is about transforming the lives of the people. Education opens up minds. According to Barr, education creates important benefits concerning not only productivity, but also shared values and civic participation. These benefits shall not be ignored. (Barr 2004, p.301) Thus, it is extremely important for the government to provide free education for the citizens, especially for the poor.

All these reasons justify the intervention of the government into the educational sphere and the free provision of education (especially the primary level education) for children, and adults, if necessary.

As for health care, it is also not a pure public good. Health services can be provided both publicly and privately. However, the government should be active in this sphere as well. Why? The most important explanation for the increased role of government in the provision of health care services arises from the concern for the consequences of income inequality. According to a widespread belief, no individual, regardless of their income, should be denied access to adequate medical services. Health care services as goods are different from most other commodities like clothes, movies, or automobiles. Just as the right to vote cannot be put on the



market (people are not allowed to buy or sell their votes), the right to live – access to medical services – should not be controlled by the market. (Stiglitz 1988, p.288) Titmuss (1970) argues that, for ethical reasons, there should be no market for blood, which should be donated to recipients. Most societies, for generally accepted ethical reasons, determine that certain commodities and services (including access to health care) should be excluded from the usual market calculus. (Barr 2004, p.265) Likewise, many Western democracies gravitate to the view that everyone should have access to adequate health care services and that the government should play a significant role in the provision of health care services.

Thus, as we have seen, there are serious reasons to consider education and health as public goods and for the government to play an important role in the provision of these social services.

In this research, the terms used in relation to public goods are “local needs”, and “local preferences”. The term “local needs” in this context means the demand for local public goods by the residents of a particular municipality (locality). Local public goods are public goods whose benefits are limited to a particular area. Traffic lights, public libraries, schools and hospitals are examples of local public goods.

The term “local preferences” means what kind of public goods and services are preferred by residents of a particular municipality (area, locality).

### **1.3. Statement of the problem**

The local government is that level of government which is the most close to people (voters). Among all levels of government, it is the best informed

about local needs and preferences. It should play significant role in the provision of local public goods. My concern is about how in practice the local government in the Russian Federation fulfills its tasks, namely what role the local government plays in the provision of educational and health services.

#### **1.4. Objectives of the study**

Objectives of the study are:

1. To study what powers and competences does the local government have in the areas of education and health.
2. To investigate the local budget, i.e. the budget of Bayandai District with emphasis on revenue formation (local taxes, transfers) and expenditures on education and health care.
3. To study the local government's activities in the areas of education and health: how, in what way the local government supports education and health care sectors.
4. To study how well the local government's policies and practices respond to local preferences and needs.
5. To study how local residents evaluate and react to the performance of the local government in the areas of education and health.

#### **1.5. Research questions**

Research questions of this study are:

1. What competences and resources does the local government have for the provision of educational and health services?
2. Does the local government's work in the area of education and health respond to local needs?
3. How residents react to performance of the local government in the area of education and health?

### **1.6. Significance of the study**

In studies of the governments in Russia, little attention has been paid to functioning of the local government. Meantime, it is the local government who is close to people and knows their preferences and needs. So I think that the local level of government should be studied well and its position and capacity should be strengthened.

### **1.7. Scope of the study**

The research studies the role of the local government in the provision of public goods. It is concentrated on the case of the local government of Bayandai District, Irkutskaya oblast, Russia. The provision of two public goods, namely education and health, is studied.

### **1.8. Limitations of the study**

While collecting data for this research, I have conducted interviews with Bayandai District residents. My interviewees knew that I was a foreign student. This fact could influence interviewees, there is probability that some interviewees were more careful expressing their opinion during interview

(although I guaranteed confidentiality right in the beginning of each interview).

The other thing I would like to mention is that the local government officials were very nice and open with me. I really appreciate and am very thankful to them for their willingness to help me and provide all necessary possibilities for conducting research. This fact also might influence my research since I (consciously or unconsciously) wanted to pay back to these hard working people with the same kindness. Fully recognizing this, I tried to be highly objective while writing this thesis.

## **2. FEDERALISM, DECENTRALIZATION, PROVISION OF PUBLIC GOODS – LITERATURE REVIEW**

### **2.1. Benefits and challenges of decentralization**

In recent decades, there have been clear worldwide tendencies towards decentralization, rapid growth in the autonomy and responsibilities of subnational governments. (Rodriguez and Gill, 2003). The main reasons of the decentralization are changes in the international economic-political conditions and failures of central planning systems. (Smoke 2001) As a result of decentralization, a large variety of systems emerged, with different degrees of fiscal, administrative, and political powers given to subnational governments. But what are the arguments for decentralization?

Arguments in favor of decentralization are centered around the works of Musgrave (1958), Oates (1972), Tiebout (1956). These arguments claim that federal arrangements and decentralization promote higher efficiency, better public services, more transparency, and economic growth. It is argued in these works that decentralization increases efficiency in provision of public goods because local governments are better informed about residents' needs and preferences than the national government, therefore, local governments are better positioned to provide public goods and services. Informational advantages allow local governments to provide public goods more efficiently, which means that demands of residents for public goods are satisfied more fully. Second, decentralization has potential to stimulate competition among local and regional governments, and in this way it can force the efficient production of public goods and services. (Tiebout 1956) Third, some authors (for example, Weingast 1995) argue that decentralization and federal arrangements may create good incentives for subnational governments to develop market economy and promote economic growth (it is called "market-preserving federalism"). Finally, decentralization can be a means of promoting democracy, transparency, accountability (Putnam 1993, Ebel and Yilmaz 2002).

At the same time, along with significant positive effects, decentralization may cause some problems. Moreover, extreme decentralization can be even harmful, especially in the case of developing and transition countries.

In the work "*Decentralization of Governance and Development*", published in *The Journal of Economic Perspectives* in 2002, Pranab Bardhan rethinks Tiebout model and traditional literature on decentralization in the context of developing countries. In Tiebout's approach, different local

governments suggest different tax-expenditure bundles and mobile citizens, consumer-voters, are supposed to allocate themselves in accordance with their preferences. But in Bardhan's view, the assumptions required for Tiebout model are much more stringent, particularly for poor countries. (Bardhan 2002, p.188)

Analyzing Tiebout model and traditional literature on decentralization, Bardhan argues that, firstly, the important assumption of population mobility in Tiebout model fails in poor countries.

Secondly, mechanisms of monitoring public bureaucrats, accounting system and information are much weaker in low-income countries. Bardhan mentions that in classical literature on decentralization and fiscal federalism it is implicitly assumed that allocated funds automatically reach their intended beneficiaries, but in the context of developing countries this assumption should be revised because of high probability of bureaucratic corruption.

Thirdly, the institutions of local democracy and mechanisms of accountability are rather weak in developing countries. Discussions on the provision of public goods in these countries should take into account the issues of capture of governments by elite groups.

Fourthly, traditional literature on decentralization and federalism is focused on how to restrain the central government's power, but in fact in many circumstances in developing countries the poor, oppressed by local power elites, may seek central government's protection.

Fifthly, according to the fiscal federalism literature, lower levels of government both collect taxes and spend funds, so municipalities can be classified as low-tax/low-service or high-tax/high-service ones. But in fact the connection between local taxes and expenditures are flimsy. In many

countries, the central governments have much more taxing powers and there is explicit tendency to vertical fiscal imbalance. There can be some justification for such imbalance since income is often geographically concentrated because of initial endowments of natural resources and infrastructural facilities as well as agglomeration economies. Therefore, some local areas will easily raise significant tax revenues while others not. Actually, in many developing countries the decentralization discussions concern more about providing (or sharing) centrally collected tax revenues to lower levels of government, and not so much about taxing powers of local governments. “The focus is on public expenditure assignments, unaccompanied by any significant financial devolution”. (Bardhan 2002, p. 189)

Sixthly, Bardhan points out that the assumption (made in traditional literature) of similar technical and administrative capacity of different levels of governments is rather questionable for all countries. Obviously, central bureaucracies attract better talents. As for the local level, in many developing countries professional quality of staff in local bureaucracies is rather low. Moreover, local bureaucrats suffer from disadvantages of isolation and low interaction with other professionals. As for information disadvantages, it works in both directions: “[...] the central government may not know *what* to do; the local government may not know *how* to do it. Of course, this problem is of differential importance in different services”. (Bardhan 2002, pp.189-190) Provision of such public goods as street cleaning and garbage collection do not require sophisticated expertise – in this case, decentralization to the local level of government will work well. But in the case of provision of such goods as power production, bulk supply

of clean water and public sanitation, which require advanced expertise, decentralization to the local level may not work.

Keeping in mind all mentioned above points, Bardhan further considers the issues of decentralization in the context of developing countries. He reminds that conventional wisdom in fiscal federalism literature is that, with heterogeneous tastes and preferences and no spillovers<sup>1</sup>, decentralization is to be preferred. When tastes are homogeneous and there are spillovers, centralized provision of public goods is more efficient. With spillovers, benefits go to other districts, and this point should be taken into account in making investment decisions like highway transport and communication, public research, controlling pollution, etc. The problem of spillover is less relevant in the case of local public goods like village health clinics, local roads, village schools, and so on.

Centralization is more efficient in exploiting economies of scale. For example, in the area of primary education, the central government can have the economies of scale in designing curricula and enforcing minimum quality standards, and the local government can take responsibility to run the day-to-day functioning of schools (i.e. responsibility for day-to-day functioning of schools can be decentralized).

Focusing on accountability issues leads to think about how citizens-voters can monitor and influence elected officials at different levels of government. One of the main benefits of centralization is that it allows better

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<sup>1</sup> The actions of one community may have effects on other communities. If a community A constructs a smelly sewage plant in a location such that the winds blow the bad odors over the neighboring communities, there are spillovers. In this case, there are negative spillovers since other communities are suffering from the action of community A. There are positive spillovers. For example, community A builds high way road, other communities benefit from the action of community A (since they can use that road).



policy coordination. However, centralization diminishes accountability in the sense of “reduced probability that the welfare of a given locality can determine the re-election of the government”. (Bardhan 2002, p.191) On the other hand, other institutional devices can be deployed to strengthen accountability, for example nongovernmental organizations.

Accountability of governments in developing countries is especially affected by the high probability of corruption and capture by local elites. On the one hand, local governments can have better local information and accountability pressure, but on the other hand, the local level may be more vulnerable to capture by interest groups, who will receive a significant share of spending on public goods. But if local governments are more vulnerable to corruption, why a central bureaucrat cannot be corrupted, as well. Indeed, the central bureaucrat, who is in charge of the delivery of public goods, may be corrupted in a way which will lead to cost increase and, in general, to inadequate delivery of public goods. In fact, there are many programs in developing countries that have a huge gap between the commitment of resources at the central level and actual delivery of public goods and services at the local level. To present an example, Bardhan refers to the study by Reinikka and Svensson (1991), according to which the leakage in the flow of funds from the central government to schools in Uganda in the years of 1991-1995 was incredibly big: only 13% of the total central government grant reached the schools.

Discussing centralization/decentralization issues, Bardhan points out at the tradeoff between conflicting aspects of centralized and decentralized systems of provision of public goods. Under decentralization, control rights are shifted from the central level to the local level. And this usually leads to the expansion of service delivery since the local level is more responsive to

residents' needs. But with high probability of the state capture at the local level, the local governments tend to over-provide the service to local elite and under-provide to non-elite. The degree of such inefficiency and inequality will depend on the extent of capture and the level of autonomy of the local government.

There are three mechanisms to finance local expenditures: local taxes, user fees, and central grants. If the instrument of local taxes is employed, then there is a risk that the captured local government would design a tax system in such a way “whereby the non-elite bear the tax burden of providing services to the elite” (Bardhan 2002, p. 193) Restraints on local government's power to levy taxes may be then desirable. Among three mentioned instruments, Bardhan favors user fees since it helps to compromise between the necessity to match the provision of services to local needs and to avoid heavy tax burden on the local non-elite. However, user charges cannot be used for financing poverty reduction programs. These programs by their very nature are targeted at groups who are not able to pay for the services.

The extent of governments capture at different levels is critical in understanding the impact of decentralization. “If local governments are equally or less vulnerable to capture than the central government, decentralization is then likely to improve both efficiency and equity. But the opposite may be the case when capture at the local level is much greater than at the central level” (Bardhan 2002, p.194) Thus, if local governments are more vulnerable to capture, then decentralization is likely to worsen efficiency and equity. Degree of capture of local governments by elite groups depends on political participation, economic and social inequality

within communities, fairness of elections, transparency, media freedom and its attention to the issues of capture, and so on.

It is very possible that central governments are also captured and even to a greater extent. But, especially in the case of heterogeneous societies, the elites are more divided at the national level, and quite often competing interest groups neutralize each other. At the same time, at the local level in the circumstances of high inequality, it is much easier to collude as well as to manage risks of being caught and reported. In addition, at the local level, social and economic relationships may protect local elite groups, these “cozy rental havens”, from external entry.

When the probability of capture of local governments is high, decentralization programs should pay serious attention to strengthening accountability at the local level. Bardhan thinks that mechanisms of such strengthening may include regular elections, public hearings on public expenditures, raising political awareness, installment of public accounts committees at the local legislature with leading members from opposition party. Some of these mechanisms were successfully used in the several states of India, namely Kerala and West Bengal. Continuing discussion on accountability, Bardhan emphasizes the problem of deficiency of auditing process at the local level. “In general, the auditing process at the local level is extremely deficient, not always by design, but by the sheer dearth in villages of technical capacity for accounting, record keeping and auditing”. (Bardhan 2002, p.195)

Summarizing discussion on adapting the decentralization theory for developing countries, Bardhan underlines the importance to go beyond the traditional tradeoff, “centralization is better for dealing with spillovers,

decentralization is better for dealing with heterogeneity”, and to investigate the issues of institutional process and accountability at all levels of government.

Bardhan concludes that it is plausible to argue that in the matter of public goods delivery, control rights should be assigned to those officials who have necessary information and incentives and will bear responsibility for the consequences of their decisions. And this argument, in many situations, calls for more devolution of power to the lower levels of government. But Bardhan’s excellent insight into the issues of decentralization makes him to warn that, in many developing countries, local accountability is not at place, local governments are captured by local elite groups who may frustrate the public delivery of social services to the general population of jurisdiction. It is very important to keep in mind this problem and, moreover, to make serious attempts to change the existing structures of power within communities and to improve the opportunities of the poor and disadvantaged to participate and voice in the political process. Bardhan points out that, after all, decentralization is not so much about weakening the central authority, it is definitely not about preferring local elites to central authority, but decentralization is fundamentally about making governance at the local level more responsive to the needs of the majority of population.

The paper “*State Corroding Federalism*” by Daniel Treisman and Hongbin Cai, published in the *Journal of Public Economics* in 2004, is also based on Tiebout’s classical essay and its further developments. Treisman and Cai note that traditional literature emphasizes the benefits of decentralization and the competition among regional and local governments. Competition for mobile residents helps to match the provision of public

goods to residents' tastes and preferences. Competition for mobile capital improves governance "by increasing the cost to officials who provide public services inefficiently" (Treisman&Cai 2004).

However, a more recent literature argues that subnational competition may provoke some distortions. When competition for capital is too high, it can lead to a "race-to-the-bottom" in local tax rates and provision of local public goods or exploitation of spillovers (for example, exporting pollution to the neighboring jurisdictions). Consensus among scholars has been that such distortions can be corrected by central government intervention: the central government can impose regulations and standards. Or, in the case of under-provision of public goods, the central government can provide them itself. As for taxes, the central government can collect and share taxes on mobile bases. Treisman and Cai challenge this view, especially in its application to developing countries. They argue that interjurisdictional competition may encourage subnational governments to act in the ways that weaken constitutional order and corrode the central government's capacities to regulate and collect taxes.

Previous literature was based on the key assumption that constitutional order works well and central government is able to set and collect taxes and enforce regulations. But, as Treisman and Cai underline, in many countries, especially developing and transition ones, where decentralization is "a live political issue", law enforcement by central government is imperfect and a framework of constitutional order is open to question. It is argued in the paper that interjurisdictional competition can itself erode the law enforcement and tax collection that are necessary for central government to correct distortions. On the one hand, subnational governments can compete to attract capital by building good infrastructure

and providing adequate amount of high quality public goods and services. On the other hand, subnational governments can compete in a different way, namely, by promising to protect firms from the obligation to pay fully central taxes or to observe central regulations. Subnational governments can deliberately undermine central government's policies and regulations in some degree and, by doing so, they reduce the costs of business operation in their jurisdictions. In practice, such subnational protection occurs in many ways, both legal and illegal. For example, a mayor may pressure central tax collectors to look the other way when they audit some firm; as well he/she can create obstacles for central regulatory agents. Regional courts can also make biased decisions. Possibly, such activities are rather rare in developed countries, but they are very common in developing countries.

Treisman and Cai undertake game-theoretic approach to show that, under certain conditions, decentralization and competition to attract capital will reduce tax revenues and welfare, intensify regulatory violations, decrease central government spending on law enforcement. When competition for capital is intense, it is difficult to attract business by investing in infrastructure, and subnational governments may chose to compete for capital by offering protection and investing less in infrastructure. Moreover, firms under subnational protection evade taxes, reducing central government's revenue, which, in turn, leads to lower central government spending on law enforcement. Lower investment in infrastructure and law enforcement will, in general, worsen economic environment and performance. Thus, according to Treisman and Cai, decentralization and competition for capital can erode central government's capacity to enforce the law and lead to deflection of resources into unproductive protection and tax evasion.

To support theoretical elaboration, Treisman and Cai describe three cases – from Russia, China and the USA – in each of which, authors believe, welfare reducing protection did occur.

*Russia: Tatarstan and Tatneft*

In the 1990s, Russia experienced wide-spread tax non-compliance. Many big companies claimed that they could not fulfill their tax obligations. Among these companies, there was Tatneft, country's fifth largest oil company, which was based in Tatarstan (subject of federation of Russia).

By October 1996, this company had \$75 million of tax arrears, and the central government threatened to bankrupt it unless it paid off taxes. It worth to mention, that pre-tax profit of this company in the previous year was \$467.9 million (Treisman&Cai 2004, Henderson 1996). President of Tatarstan Mintimer Shaimiev, the company's main protector, accused the central government for using Soviet tactics and announced he would ignore the central order to bankrupt the company. Probably, Shaimiev was sure that his good relations with regional courts would help him to obstacle the enforcement of bankruptcy order. Then, several days later, Shaimiev took a trip to Moscow and had meeting with prime minister Cheromyrdin. As a result of this meeting, Tatneft's tax debt was lowered. But soon Tatneft again accumulated tax arrears. This time the federal government threatened to cut the company's access to an export pipeline. Shaimiev traveled to Moscow again and met there the new prime minister, Kirienko. After the meeting he announced that: "The question of access to pipelines has now been taken off the agenda". (Treisman&Cai 2004, Moscow Times 1998).

Shaimiev's effort to protect the company from the central government's tax law enforcement coincided with the inflow of foreign investment into the company. Furthermore, the company was issued multi-million loans by western banks. It would be safe to say that Tatneft's close relations with regional government seem have attracted foreign investors.

Investing resources in court arrangements, trips to Moscow and other protective actions, president Shaimiev helped enterprises like Tatneft decrease tax costs. Competition for capital urged the regional leader to collude with local businesses.

### *China: Smuggling on the South Coast*

In China, competition among cities, towns, provinces and special zones for foreign capital is high. In a paper by Monitola, Qian and Weingast (1996), it is argued that provincial and local governments compete to attract capital in two welfare-enhancing ways: improving laws, regulations and taxes that impact businesses and offering better infrastructure and access to markets. But Treisman and Cai argue that there is a third way – provincial and local governments attract capital by helping evade central government custom duties on imports.

Foreign trade liberalization in China was accompanied by significant growth of smuggling. Smuggling was concentrated in the regions where competition for foreign capital was highest. Treisman and Cai consider the case of Hong-Kong based Yuanhua Group, a firm run by Fujian province native, Lai Chiangxing. Supported by Fujian provincial and Xiamen city administrations, Lai smuggled goods worth \$6 billion into Fujian in 1990s (Lawrence 2000).



Local corrupt bureaucrats, who protected Yuanhua, were interested not only in attraction of mobile capital, Lai provided them with personal benefits in the form lavish bribes. Nevertheless, their support helped to attract foreign investment to the region. Firstly, Lai himself invested into the province: he built a hotel, an entertainment complex, bought another city's soccer team and brought it to Xiamen. Secondly, Lai smuggled raw material and oil, which were in high demand in the province. Local officials must have known that cheap raw material played a vital role for competitiveness of the local economy as well as for its attractiveness to foreign investors.

Lai, and possibly other smugglers, were able to be engaged in smuggling operations for years because of protection, offered by local and provincial officials. When the central government sent investigators, local officials tried to impede them. The Xiamen city deputy police chief informed Lai on his impending arrest, and Lai got a possibility to escape abroad (Hajari 2000).

Competition for capital strengthened incentives for local officials to try to attract capital by protecting smugglers, who invested in the local economy as well as helped to decrease local raw materials prices, which encouraged others to invest.

### *The USA: mountaintop removal mining in West Virginia*

Cost of business can be reduced by regional government when it fails to enforce or impedes the enforcement of central regulations.

In West Virginia, coal mining accounts to about 13 % of the state's GDP. Coal mining in this state was made more profitable by using mountaintop removal technique. When this technique is used, hilltop is

blasted off to uncover coal reserves, then, leftover rock and earth are dumped into neighboring valleys. If such techniques were restricted in West Virginia, then mining operations would be much less attractive to investors. However, there are huge potential environmental costs of such operations: acid runoff may pollute rivers, mountaintop removal may lead to deforestation.

The federal law of 1977, namely Surface Mining Control and Reclamation Act (SMCRA), provides detailed regulations of coal mining. It prohibits mining operation within 100 feet of active streams. It should be mentioned that West Virginia's Department of Environmental Protection (DEP) was delegated the task of enforcing this act.

In July 1998, a group of individuals and environmental groups sued the DEP for not enforcing SMCRA. In October 1999, a federal judge, Charles Haden II, agreed, charging that dumping of waste into valleys violated the federal regulation (Haden 1999). In fact, West Virginia DEP had not been enforcing this federal regulation for years. Haden ordered DEP to stop issuing permits to coal companies who was going to dump waste into streams.

The state government quickly reacted, hiring an outside law firm to fight the lawsuit. The cost of hiring was such that the two main lawyers billed the state government \$106,000 for their first two months of work (Treisman&Cai 2004, Ward 1999a, 1999b). As well, in-house DEP lawyers worked on the case. Other DEP officials were diverted from their usual work to assess the cost of halting such mining. The result was quite effective: Haden lifted his order despite his belief that opposition was based on "misunderstanding".

It is a case when a fear to lose capital motivated a state government to invest in helping local firms to circumvent federal regulation. Such actions are inefficient and lead to tolerating environmental degradation. This is precisely the case in which central regulation is needed. But regional government made significant efforts to block enforcement of central regulation and made such regulation unreliable.

No doubt, decentralization has great benefits, but it can have real costs for which it is not so easy to find appropriate solutions. Interjurisdictional competition can be “efficiency-enhancing” or “efficiency-depleting”. Markets require an environment of law-and-order, which central government provides. So, the benefits of decentralization and competition among jurisdictions must be balanced against the incentives to corrode centrally provided law and order.

## **2.2. Decentralization in Central and Eastern Europe and Russia**

Now I will turn to discussion of decentralization in Central and Eastern Europe and Russia.

Decentralization in Central and Eastern Europe is studied in the work of Andres Rodrigues-Pose and Anna Kroijer “*Fiscal decentralization and economic growth in Central and Eastern Europe*” (LEQS Paper, No.12, 2009), where there was analyzed a sample of sixteen Central and Eastern European (CEE) countries for the years 1990-2004.

Since the beginning of the 1990s, reforms of intergovernmental systems have undertaken in the countries of Central and Eastern Europe: these countries began the transition from highly centralized systems to decentralized ones with market-oriented economies. Rodrigues-

Pose&Kroijer point out that for CEE countries the political factor of joining EU played significant role in shaping attitudes towards decentralization reforms, especially in Baltic states, the Czech Republic, Poland and Hungary. These factors also have motivated some CEE countries to design its regional structures as in the countries of Western Europe.

Rodrigues-Pose&Kroijer mention that the reforms across countries have been uneven: CEE countries have decentralized differently, to different degrees, at different pace. Countries with larger territories and population, such as Russia and Poland, probably need more decentralization of provision of public goods than smaller countries like Estonia, Latvia or Moldova. As well, more ethnically diverse countries, such as Russia and Croatia, probably need more decentralization than ethnically homogeneous countries like Poland.

In CEE countries, subnational governments take now more responsibilities for public services than they did under central planning regime. This has been reflected in the growth of local government expenditures. For example, in Hungary, local government expenditures as a percentage of consolidated government expenditures increased from 22,3% in 1988 to 26% in 2000. (Rodrigues-Pose&Kroijer 2009) If to look at expenditure assignments, such countries as Albania, Croatia, Estonia, Slovak Republic, Slovenia “match expectation of relatively centralized fiscal system”. (Rodrigues-Pose&Kroijer 2009) So, in these countries provision of public goods and services are more centralized in comparison with other CEE countries.

According to Rodrigues-Pose&Kroijer, many CEE countries suffer from a lack of clear rules of expenditure assignments. There are many cases of overlap in competences between different levels of government. But such

countries as Czech Republic, Hungary, Poland, Estonia, Lithuania were successful to minimize mentioned above problem of overlap.

Rodrigues-Pose&Kroijer found that decentralization is negatively correlated with economic growth in CEE countries for considered period of time. This finding is related to the problem of weak institutions in CEE countries, weak financial systems, lack of clarity in expenditure assignments. In many cases, regions have been assigned a lot of responsibilities without adequate resources to fulfill these responsibilities. This leads to the situation when subnational governments do not have incentives to behave in efficient manner and provide high quality public services. In relation to this, Rodrigues-Pose&Kroijer justly note:

*When local governments do not have the real autonomy to determine their expenditures, the efficiency and delivery of public services to the different regions are compromised and left to the determination of local power elites or central governments that may favour some regions over others.*  
(Rodrigues-Pose&Kroijer 2009)

In many CEE countries, central governments do not pay attention to subnational governments' financial capacity to meet assigned expenditures. Rodrigues-Pose&Kroijer mention that efficient decentralization demands an appropriate correspondence between responsibilities and decision-making powers. In most CEE countries, this is far from reality. In fact, in these countries expenditure autonomy of subnational governments has been limited. In general, lack of resources, insufficient technical expertise, conflicts in political interests mean that local governments are not able to

provide efficiently public goods and services and respond to local preferences and demands.

Rodrigues-Pose&Kroijer argue that significant transfers from the center in CEE countries are a clear sign of high level of dependence and weakness of subnational governments in terms of resources. There is also a problem of non-transparency in the system of intergovernmental transfers. According to Rodrigues-Pose&Kroijer, only Hungary and Poland have transparent system of transfers. Fiscal dependence of subnational governments in CEE countries on higher levels of government creates disincentives for subnational governments to collect local revenue and decrease cost of service delivery. Rodrigues-Pose&Kroijer note that:

*The higher the degree of local governments' own taxes – and independence from transfers from other levels of government – the more likely a country is to have self-sufficient and economically efficient subnational governments.*  
(Rodrigues-Pose&Kroijer, 2009)

The success of decentralization in many CEE countries requires a clear delegation of functions by central government, with transparent revenue assignments, which corresponds with subnational governments' expenditure responsibilities. As for transfers, Rodrigues-Pose&Kroijer mention that they should be based on firm principles and specified by legal formula (formula-based transfers).

Rodrigues-Pose&Kroijer justly note that the level of expenditures can be misleading indicator of the degree of decentralization since in many cases (especially, in developing and transition countries) subnational governments (especially, local level) do not have expenditure autonomy, sufficient

decision-making power, and are largely responding to central government directives.

According to Rodrigues-Pose&Kroijer, the problems with decentralization in transition countries are related mostly to weak institutions, which stimulate “a reluctance of central governments to assign appropriate level of autonomy to local governments in order to achieve the potential efficiency of decentralization”. (Rodrigues-Pose&Kroijer 2009) Unclear division of responsibilities among different levels of government in such countries as Belarus and Azerbaijan create instability and unpredictability in intergovernmental relations. On the other hand, such countries as Hungary, Czech Republic and Poland were successful in conducting reforms in legal and institutional frameworks, which are required for decentralization. (Rodrigues-Pose&Kroijer 2009)

Russian contemporary experience with federalism and decentralization, provision of public goods is analyzed in the works of Ross C., Treisman D., Lavrov A., J. Litwack J., Sutherland D., Zhuravskaya E., and others. I will discuss here two works, namely those of Ross (2003) and Zhuravskaya (2000).

The work of Cameron Ross ***“Putin’s federal reforms and the consolidation of federalism in Russia: one step forward, two steps back!”*** (*Communist and Post-Communist Studies*, 36, 2003, 29-47) provides an analysis of Putin’s overhaul on the Russian federal system and its influence on federalism and democratization.

Putin became President of the Russian Federation in March 2000 (first term). Since that time, Putin demonstrated, according to Ross, by his actions that he had no real commitment to the principles of federalism as well as

democracy. In Putin's view, Russia could develop successfully if anarchic powers of the governors are reduced and "the power-vertical" is strengthened. (Ross 2003) In order to strengthen "the power-vertical" and to implement a uniform policy, Putin called for a "dictatorship of law". Putin's primary aims were to create a unified space in the federation and to reassert the federal government's control over the regions. (Ross 2003)

In the beginning of 2000s, Putin's federal reforms included such measures as the creation of seven new federal super-districts, a reform of Federal Council, the granting of new powers to the President to dismiss regional governors (later elections of regional governors were abolished), new rights for regional governors to dismiss municipal officials.

To tighten federal authority over the regions, Putin divided the country into seven super-districts and appointed presidential representative (polpredy) to each super-district. The boundaries of each district were drawn up in such a way that each district included a mix of ethnic republics and territorial regions. And no one capital of the federal districts was situated in ethnic republic. According to Ross, that was the first step in lowering down the status of ethnic republics. No doubt, Ross points out, Putin's federal reforms represent an assault on the federal idea and violate the spirit of the Constitution of the Russian Federation. (Ross 2003)

Putin's polpredy have impressive powers: they have to monitor the regions' compliance with the federal laws, oversee the placement of personnel in the regional branches of the federal agencies, to protect national security interests, to control the press (the press came under control not only governors, but also of the polpredy).

Under the second measure of Putin's reform, regional governors were denied membership in the upper chamber of the parliament (Federation



Council) and they lost their right to immunity from criminal prosecution. (Ross 2003) After that reform, according to Ross, Putin became able to use the threat of prosecution to keep regional governors in line. Regions now have to appoint their representatives to upper chamber. The result of these reforms was that majority of the Federation Council were permanent Moscow residents with weak ties to regions they were supposed to represent. Ross thinks that such developments undermined principles of federalism and led to extreme centralization. (Ross 2003)

According to Ross, Putin's reforms to enforce federal laws and bring order were conducted at the expense of civil liberties and democracy. Putin's reorganization of the Federal Council, cancellation of elections of regional governors, creation of federal super-districts with appointment of powerful polpredy, extreme state control of mass media made a mockery of federalism and democracy. Ross concludes that Putin sacrificed democracy and undermined principles of federalism in order to win unity of the country. (Ross 2003)

The work of Ekaterina Zhuravskaya "*Incentives to provide public goods: fiscal federalism, Russian style*" (*Journal of Public Economics*, 76, 2000, 337-368) shows how the system of revenue sharing between regional and local governments impacts local governments' incentives to provide public goods. Zhuravskaya argues that any change in local government's own revenues is almost entirely offset by changes in shared revenues. (Zhuravskaya 2000)

In Russian tax system most local tax revenues are shared revenues (shared between regional and local governments). When local government increases own tax revenues, this increase in revenues almost in total goes into regional budget (not local). Thus, local governments do not benefit from

an increase in tax base, therefore they are not motivated to expand tax base. (Zhuravskaya 2000)

According to Zhuravskaya, strong fiscal incentives impact positively tax base, and in this way encourage business formation and economic development. Moreover, stronger fiscal incentives would lead to efficiency of provision of public goods, because of small part of public finance would be wasted. (Zhuravskaya 2000)

The main finding of Zhuravskaya's paper is that Russian local governments are financially dependent from the regional governments, they have never been given the right to raise own tax revenues. Zhuravskaya argues that fiscal dependence of local governments on the regional governments "has negative effects on the efficiency of local public goods provision" (Zhuravskaya 2000) Zhuravskaya concludes that expenditure decentralization will not achieve the expected benefits without decentralization of revenue collection.

### **3. THEORETICAL FRAMEWORK**

#### **3.1. Riker's theory of federalism**

The first theory which is employed in this thesis is Riker's theory of federalism. William Riker in his seminal work "**Federalism: Origins, Operation, Significance**" (Boston: Little, Brown, and Co.,1964) defines 20<sup>th</sup> century as an Age of Federalism. Indeed, there are many federations in

the world nowadays such as Canada, Germany, USA, Russia, Australia, India, Argentina, Brazil, Nigeria, Malaysia, and others. Many of these federations, in fact majority of them, were created in the 19<sup>th</sup> and 20<sup>th</sup> centuries. In contemporary world, half of the land mass is ruled by federal governments. Riker explains such popularity of federal arrangements by the fact that federalism is “one way to solve the problem of enlarging governments”, which is a consequence of rapid technological change. (Riker 1964, p. 2) Advances in technology make it possible to control larger territories from the center. Riker mentions that there are enough ambitious politicians in the world at any time, so it is safe to say that at least one government will be tempted to use technological achievements to enlarge its area of control. According to Riker, the initial form of the most federations was empire.

*[...] large territories were accumulated to conquest when the technologically sophisticated Europeans subdued ... inhabitants of America, Asia, and Africa. Thus were created the Spanish, Portuguese, Dutch, British, French, German, Russian, and Belgian empires. Of modern empires, only the Austrian, Turkish, and Chinese involved the conquest of territory inhabited by people as technologically sophisticated as the conqueror and even in these cases the conqueror had some kind of technological superiority in transportation and military equipment. (Riker 1964, p.3)*

Empire was a characteristic form of government in the 18<sup>th</sup> and 19<sup>th</sup> centuries, but this form of government has not been popular in the 20<sup>th</sup> and 21<sup>st</sup> centuries. Riker defines two reasons for the failure of imperialism:

1. imperial powers were exhausted in conflicts with each other and were unable to keep control over their dependencies;
2. dependencies learned enough from their masters and were able to challenge imperial control.

The collapse of imperialism, according to Riker, forced a constitutional alternative. Subdivisions, former parts of empire, were not usually large enough, and were weak and fragile to take advantage of independent political units.

Surely, one possibility for newly independent subdivisions was to stand alone as political units. But in this case they were vulnerable to a new imperialism, i.e. still there were dangers for these subdivisions to be absorbed by another empire. The second alternative was to join several former imperial subdivisions together in one centralized unit. But in this case some kind of empire would be created. Yet, the other alternative was to join subdivisions in federation, which would save subdivisions' self-control and allow them to enjoy technological advantages, especially in the size of treasuries and armies. Concerning this alternative, Riker writes:

*The subdivisions can, however, be joined in some kind of federation, which preserves at least the semblance of political self-control for the former subdivisions and at the same time allows them (by means of the government of the federation) to make use of the technological advantages [...] (Riker 1964, p.4)*

According to Riker, federalism is the main alternative to imperialism. He explains the popularity of federalism in the 20<sup>th</sup> century by the fact that, firstly, federalism allows to avoid the offensiveness of imperialism and,

secondly, federalism assures to some degree the size of treasuries and armies. He thinks that the combination of these two reasons “accounts for the twentieth century popularity of the federal kind of constitutional bargain”. (Riker 1964, p.5)

Riker’s definition of federalism and explanation of federalism are very popular in current debates on federalism. In fact, Riker’s theory of federalism stands as a point of departure for many analyses of federal arrangements.

Riker’s theory of federalism interprets federalism as a bargain between central and subnational governments. More precisely, Riker writes that federalism is “a bargain between prospective leaders and officials of constituent governments for the purpose of aggregating territory”. (Riker, 1964, p.11) Further Riker gives rules of identification of federation. According to these rules, a country is a federation if its constitution defines: 1) (at least) two levels of government rule the same territory and people; 2) each level of government has at least one area of action in which it is autonomous; 3) there is some guarantee (even just as a statement in the constitution) of the autonomy of each government in its own spheres of competency. (Riker 1964, p.11)

A central government, i.e. a government of the federation, and a set of governments of the number of units, i.e. regional and local governments, rule the same territory and people, and each level of government has the authority to make decisions independently of the other governments. In reality, there might be a great many variations of constitutional arrangements. The many possible federal constitutions may be ranged according to the degree of independence between minimum and maximum.

Minimum: the ruler (central government) of the federation makes decision only in one sphere (for example, in military sphere) without getting approval of the member governments.

Maximum: the ruler (central government) of the federation can make decision *in all but one* sphere without getting approval of the rulers of the constituent units. *All but one* means that in one area the ruler of the federation has to consult with member governments and get their approval. In the case if the central government makes decision in zero spheres, neither a federation nor the central government exists. On the other hand, if the central government makes decision in all areas, i.e. rule everything, then the government is an empire in the sense that member governments do not have political self-control. (Riker 1964, p.6 ) In real life, few federations (if any) lie at either extreme. Majority of federal arrangements are somewhere between these two extremes. Riker defines those federalisms which are closer rather to the maximum than to the minimum as centralized federalisms; and those federalisms which are closer to the minimum than to the maximum as peripheralized federalisms (decentralized federalisms) (Riker 1964, p.6 ) Although this rule of classification of federalisms sounds very clear and precise, these clearness and precision are rather counterfeit. In reality, there are a lot of areas of actions (of different importance) which makes precise classification somewhat a difficult task. Riker suggests one rough standard by which it is possible to classify federations. If the ruler of the federation (i.e. central government of the federation) has greater impact on what happens in the country as a whole, then, this is the case of ***centralized federalism***. On the other hand, if the rulers of subnational governments have, in sum, greater influence over what happens in the society as a whole, then, this is the case of the ***decentralized federalism***.

### **3.2. Oates's approach to federalism.**

An economic approach to federalism is discussed and analyzed in the work of Wallace Oates "**Fiscal Federalism**" (Harcourt Brace Jovanovich, Inc., 1972).

According to Oates, there are three functions of the public sector: 1) to ensure an efficient use of resources (allocation problem), 2) to establish an equitable distribution of income (distribution problem), 3) to maintain the economy at high levels of employment with reasonable price stability (stabilization problem). (Oates 1972, p.3) Further Oates mentions that the public sector should be organized in the way that will best allow the government to perform main tasks. In general, as Oates writes, the question is: What form of government promises the greatest success in resolving the allocation, distribution, and stabilization problems? (Oates 1972, p.3) To conduct analysis, Oates considers at a conceptual level two forms of government: 1) a unitary form of government: in this case, a central government assumes full responsibility for the public sector functioning, 2) a highly decentralized system: in this case, local governments assume nearly all responsibilities for the public sector functioning. The difference between these two extremes, as we can notice, is the degree of decentralization of the public sector.

#### ***The economic case for centralized government***

As it was mentioned above, stabilization problem is one of the tasks of the public sector. Oates thinks that for stabilization purpose a centralized form of government is preferable since a central government possess greater

capabilities to maintain high levels of employment and stable prices than would subnational governments. On this respect, Oates writes:

*[...] as regards the stabilization problem, a unitary form of government is distinctly superior to a government organization exhibiting an extreme degree of decentralization. A central government is in position to make good use both of monetary and fiscal policy in maintaining the economy at high levels of output without excessive inflation. Local governments, in contrast, are seriously constrained in their capacity to regulate the aggregate level of economic activity in their jurisdictions. (Oates 1972, p.6)*

The distribution problem is a complicated matter in the decentralized system. If society desires a more egalitarian distribution of income, then the desired distribution of income might require the transfer of certain income from the rich to the poor. In the decentralized fiscal system, local governments working to achieve redistributive aims may run into problem. More egalitarian redistributive programs probably will create strong incentives among wealthy population to move out from this municipality to other less egalitarian municipalities. As well, it will create incentives for poor population to migrate into this more egalitarian municipality. General result will be nearly equal distribution of income, but this approximate equality will be reached by outflow of the rich and inflow of the poor. An average per capita income will fall in this municipality, i.e. municipality will become both more poor and more equal. This suggests that redistribution policy would be more successful if it carried out on the national level. Therefore, a unitary form of government is likely to be more promising and



more effective in achieving redistributive aims of the society in comparison with a decentralized government.

As for allocation problem, it can be found that for certain goods and services a centralized government is more desirable than a decentralized one. One such good is national defense. A system of decentralized decision making would tend to under-produce such good since each community hardly would be willing to invest enough into provision of that good. Instead it would rather try to be a free-rider: neighbor's defense system will protect it. But if each community's strategy is "free-rider", then such good will be under-produced or not produced at all. In contrast, under a unitary form of government, a central government would work better to provide public goods that benefit the members of all communities (than would a system of decentralized decision-making). (Oates 1972, p.10)

Thus, Oates suggests that a centralized government has some advantages over a decentralized government. It is argued by Oates that local governments would have difficulties to stabilize economies, to fulfill equitable distribution of income, and to provide optimal level of some public goods (for example, national defense). Centralized governments would be more capable of performing mentioned functions. Nonetheless, local governments possess attractive characteristics which will be discussed below.

### ***The Economic Case for Decentralized Government***

Main shortcoming of a centralized government is that a centralized government can be insensitive to preferences of residents of different communities. If a central government provides all public goods, then there will be a tendency toward uniformity in provision of public goods and services across communities. But consumption of public goods and services

almost always involves compromises. (Oates 1972, p.11) Some people prefer a wide program of public services, other people prefer less such programs (and less taxes). For nation-wide public services (such as defense) compromise is inevitable. For more local public services whose benefits are limited to certain communities there is a possibility of at least partial solution in more decentralization of public sector.

Oates argues that if some public good, which has local character, is provided by the central government, then the most likely outcome would be uniform levels of consumption in all communities. But such uniform consumption may be inefficient since it does not take into account different tastes of residents in different communities. On the other hand, if that public good is provided by the local government, the possible outcome probably would be variations in provision of that service which would to some degree reflect differences in tastes of residents in different communities. The main idea here is that efficiency is reached by providing the mix of output (centralized and decentralized) which best reflects preferences of residents of a country. If all residents consume the same level of certain public good (when variation in consumption of that good is possible), then an inefficient allocation of resources takes place. According to Oates, a decentralized form of government promises an increased efficiency by providing certain public goods that corresponds more to the tastes of different groups of residents.

Oates further argues that decentralization may encourage experimentation and innovation in the production of public services. Under decentralization there would be a variety of approaches in the provision of public goods, which would result in greater progress in provision of public goods and services. (Oates 1972, p.12) In addition to that, existence of large number producers of public services will put competitive pressures and will

encourage producers to adopt more efficient ways of production. On the other hand, if a single central government provides all public goods and services, the result probably will be less innovations and efficiency. So, system of local governments, according to Oates, promotes efficiency in provision of public goods and services.

### ***The optimal form of government: a federal system***

As follows from the preceding discussion, both a unitary government and extremely decentralized government have advantages and disadvantages in performing the three fundamental tasks in the public sector. Oates argues that:

*“A central government can best resolve the stabilization and distribution problems, but in the absence [...] of local governments, serious welfare losses from uniformity in the consumption of public goods and technical waste in their production are quite likely”.* (Oates 1972, p.14)

Some form of government that is between of these two extremes and avoids the main disadvantages is desirable: a federal form of government meets this requirement.

According to Oates, federalism represents, in some sense, a compromise between unitary government and extremely decentralized form of government. In federal system, both central government and subnational governments make decisions on provision of public goods and services. The attractiveness of federal form of government is that it combines the strengths of unitary government with strengths of decentralized government. In

federal arrangement, each level of government “does what it can do best” instead of trying to perform all functions of the public sector. (Oates 1972, p.14) The central government is the best for stabilizing economy, for reaching more equal distribution of income, and for supplying national public goods (for example, defense). Subnational governments can complement central government’s functions by providing public services that are of interest to residents of corresponding jurisdictions. Thus, Oates argues that a federal form of government suggests the best solution to the public sector problems. Furthermore, Oates describes federalism as the optimal form of government<sup>2</sup>. (Oates 1972, p.15)

Decentralization of the public sector is important since it provides some mechanism by which “the level of provision of public goods and services can be fashioned according to the preferences of geographical subsets of population”. (Oates 1972, p.17) According to Oates, federal government is that kind of government under which:

*A public sector with both centralized and decentralized levels of decision-making in which choices made at each level concerning the provision of public services are determined largely by the demands for these services of the residents of [...] respective jurisdictions. (Oates 1972, p.17)*

So, Oates concludes that, from economic perspective, i.e. concerning provision of public goods and services, a federal system is the optimal form of government for organization of public sector.

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<sup>2</sup> Although, Oates’s considerations are mostly in economic terms.

### 3.3. Tiebout model

The third theory utilized in this work is Tiebout's theory (known as Tiebout model), which is presented in the paper by Charles Tiebout "*A Pure Theory of Local Expenditures*", published in *The Journal of Political Economy* in 1956. In his seminal work, Tiebout intended to give an answer to R.Musgrave and P.Samuelson<sup>3</sup>, both of whom agreed upon that "no market type" solution exists to determine the level of expenditures on public goods. (Tiebout 1956, p.416). By "market type solution" Musgrave and Samuelson meant decentralized and efficient. Tiebout's response to Musgrave and Samuelson assertion is that if public good is local, then a market type solution may exist. Assumption made by Samuelson and Musgrave was that expenditures were handled at central government level. But many public services, like police, fire protection, education, hospitals, are provided by local governments. In practice, local expenditures are indeed significant, but quite often are neglected. Tiebout asked very important question on whether there was a mechanism to insure that expenditures on these public goods approximate at proper level. (Tiebout 1956, p.418) Think over a case of some city resident who decided to move to suburb region. What factors will influence his/her choice of municipality? If that person has children, then perhaps school quality will play role. Other factors, which would impact the consumer-voter choice, may include the availability and quality of health

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<sup>3</sup> Richard A. Musgrave "The Voluntary Exchange Theory of Public Economy", *Quarterly Journal of Economics*, LII (February 1939, p.213-17; "A Multiple Theory of the Budget", paper read at the Econometric Society annual meeting (December, 1955) and the book "The Theory of Public Economy"; Paul Samuelson "The Pure Theory of Public Expenditures", *The Review of Economics and Statistics*, XXXVI, No. 4 (November, 1954), pp.387-89, and "Diagrammatic Exposition of a Pure Theory of Public Expenditures", *ibid*, XXXVII, No. 4 (November, 1955), pp.350—56.

care services, police protection, parks, roads, and so on. It is most likely that our consumer-voter will choose that municipality that best satisfies his/her preferences for public goods. Tiebout considered it, i.e. better satisfaction of preferences, as a major difference between central and local provision of public goods.

*[...] the consumer-voter moves to that community whose local government best satisfies his set of preferences. The greater the number of communities and the greater the variance among them, the closer the consumer will come to fully realizing his preference position (Tiebout 1956, p.418)*

Tiebout's theory, often called in contemporary literature as a Tiebout model, is based on the following assumptions.

1. Consumer-voters are fully mobile.
2. Consumer-voters have full knowledge on revenue and expenditure patterns of all communities.
3. There are a large number of communities.
4. Restrictions due to employment opportunities are not taken into account.
5. No spillovers among communities.
6. Average cost is a function of population size and has a U-shape form, i.e. there exists a population size which minimizes cost.
7. Those communities, which have population size below cost minimizing level, will try to expand; those communities, which have population size above cost minimizing level, will try to contract.

If the system is not in equilibrium, then there will be a subset of consumer-voters who are not contented with their community's pattern of revenue and expenditure. Given an assumption of mobility, movement of residents will take place: discontent consumer-voters will move to the community that satisfies their preferences.

The brilliant insight of Tiebout was to argue that people by "voting with their feet" reveal their demand for the public goods. The main point here is that "feet voting" can serve as a mechanism to discipline and constrain local government's behavior. If residents, consumer-voters, are not satisfied by local government's performance in provision of public goods, then they will move to other municipalities, i.e. they will vote by their feet. Tiebout claimed that under assumptions mentioned above efficient provision of public goods would be reached.

## **4. METHODOLOGY**

In this study, both qualitative and quantitative research methodologies are used, although qualitative methodology is the main methodology employed. As for quantitative methodology, it is used only to test Tiebout model.

### **4.1. QUALITATIVE RESEARCH METHODOLOGY**

Qualitative research methods are a complex field, a site of multiple methodologies and practices. Punch points out that qualitative research is not

a single entity, but an umbrella term which encompasses enormous variety (Punch, 2004, p.139). The source of empirical data for qualitative part of this research is personal interview(s). There were interviewed eleven people. Interview questions are presented in Appendix 2.

#### **4.1.1. Case study**

This work made use of the case study. Case study entails the detailed study of a single case. (Bryman 2004) Case study is concerned with the nature and complexity of the case in question. (Stake 1995) Punch points out that the general objective of the case study is to develop understanding of the case as deeply as possible in its natural setting. According to Punch, the case study is a “bounded system”, it has boundaries. (Punch 2004) Thus, researcher has to identify boundaries of the case. This research studies the role of the local government in the provision of public goods in Bayandai District (Irkutskaya oblast, Russia). It studies what roles are played by the local government in the provision of health and educational services in the municipality. In an attempt to understand the character of the provision of public goods and services in Russia, the study was done within the context of federalism and decentralization.

There is criticism of the case study, which concerns its generalizability. “This study is based on only one case, so how can we generalize?” (Punch 2004, p.153) According to Punch, there are two types of case study situations, where generalization would not be objective.

*First type.* The case may be so important, interesting, unique in some very important aspects, or misunderstood that it deserves to be studied in its own right. (Punch 2004, p.154) This is called intrinsic case study.



*Second type.* A particular case seems significantly different from the general pattern of other cases, probably even absolutely opposite to them. Thus, there is a need to understand why this case is so different. This is kind of “negative case”. (Punch 2004, p.154) This is called instrumental case study.

Now I will try to argue that findings from this one case, i.e. the case of provision of educational and health services by local government in the Bayandai District, can be generalized for the whole Russia. The case of the local government of Bayandai District is not unique or misunderstood. This case is not an intrinsic case. Neither this case is completely different from other cases, i.e. the local government of Bayandai District is not completely different from other local governments in Russia. Thus, this case is not an instrumental case. Since the case of this research is neither intrinsic case, nor instrumental case, it can be generalized for whole Russia.

Case study is often associated with qualitative research. But in fact, case can be studied by the means of quantitative methods as well. For example, organizational commitment of employees of some organization. Here, certain organization is the case. If that organization has just 3 employees, then it would be indeed difficult to apply quantitative methods. But if there are more than thirty employees, then quantitative methods are applicable.

In this research, quantitative methods are used to analyze opinions of residents (to test Tiebout model). For quantitative analysis, there was conducted a survey and there were filled out 100 questionnaires. This amount of data allows to conduct simple quantitative analysis.

### **4.1.2. Research design**

Objectives of the research and the research questions guide the research design. The main sources of data are the interviews and, to some extent, literature review. In this work, three theories are tested: Riker's theory of federalism, Oates's theory of federalism and Tiebout model. These theories guided the research and were instrumental in the analysis of the collected data to get the findings and make conclusions.

### **4.1.3. Qualitative interview**

The interview is one of the main instruments of data collection in qualitative research. It is a good way of accessing people's perceptions, definitions of situations, meanings, constructions of reality. (Punch 2004, p.175)

Interviewing is mostly about asking questions and getting answers. But, as Fontana and Frey note, there is much more to it than that:

*Interviewing has a wide variety of forms and multiplicity of uses. The most common type of interviewing is individual, face-to-face verbal interchange, but it can also take the form of face-to face group interviewing, [...] Interviewing can be structured, semi structured, or unstructured. It can be used for marketing purposes, to gather political opinions, for therapeutic reasons, or to produce data for academic analysis. [...] An interview can be a one time, brief exchange, say five minutes over the telephone, or it can take place over multiple, lengthy sessions, sometimes spanning days, as in life-history interviewing. (Fontana and Frey 1994. p.361)*

There are different types of interviews. The main dimensions of the variation of interviews are the degree of structure in the interview, how deep the interview tries to go, and the degree of standardization of interviews across different respondents and situations (Punch 2004, p.175) At the one end of the continuum, interviews are highly structured and standardized. In this case, interview questions are planned and standardized in advance. The interview itself does not try to go to the big depth. (Punch 2004, p.176) At the other end, interviews are unstructured and open-ended. In this case, interview questions are not pre-planned and standardized. There are general questions to get the interview going and to keep it moving. (Punch 2004, p.176) Between these two extremes, semi-structured interviews are located. Here, the researcher has a list of questions or specific topics to be covered, often referred to as an interview guide. Questions may not follow on exactly in the way outlined on the schedule. Questions that are not included in the guide may be asked: the interviewer can pick up on things said by interviewee. But all questions outlined in interview guide will be asked from all respondents (interviewees). (Bryman 2004, p.231)

In this research work, semi-structured interviews are used for data collection (for qualitative part of research). There were interviewed eleven people: five local government officials (including three officials from the department of education), the Main Doctor (medical), five residents of the district. Interview questions are presented in Appendix 2.

#### 4.1.4. Method of analysis

There are many different methods of qualitative data analysis. There are good reasons for the existence of the many analytic strategies: any set of qualitative data can be looked at from different perspectives. This variety in approaches tells us that there is no single right way to do qualitative data analysis – no single methodological framework. It depends a lot on the purposes of the research. (Punch 2004, p.199) What is indeed important is transforming, interpreting and making sense of qualitative data. As Coffey and Atkinson write:

*What links all the approaches is a central concern with transforming and interpreting qualitative data in a rigorous way – in order to capture the complexities of the social worlds we seek to explain. (Coffey and Atkinson 1996, p.3)*

In this work, the Miles and Huberman framework for qualitative data analysis is used. The Miles and Huberman method includes three main operations, namely, coding, memoing and drawing conclusions.

Coding is analysis. On the other hand, coding is the specific activity by which the analysis is started. Punch thinks that both definitions are correct, in the sense that coding both begins the analysis, and also goes on at different levels throughout the analysis. (Punch 2004, p.204) Codes are labels, names, or tags; coding is the process of putting labels, names, or tags against pieces of empirical data. Assigning labels, names, tags is the way by which meaning is attached to the pieces of data. Thus, coding is the activity

of labeling data, which keeps data analysis under way, and which continues throughout the analysis. (Punch 2004, p.206)

Memoing is the second operation. While coding is being conducted, many ideas occur to the analyst. These become the stuff of memos, which record the ideas. (Punch 2004, p.206) Glaser defines memo in the next way:

*A memo is the theorizing write-up of ideas about codes and their relationships as they strike the analyst while coding [...] it can be a sentence, a paragraph or a few pages [...] it exhausts the analyst's momentary ideation.* (Glaser 1978, p.83-84)

Memos may be substantive, theoretical, methodological or even personal. Substantial and theoretical memos have conceptual content, thus, they help the analyst move from the empirical to the conceptual level. (Punch 2004, p.207)

Punch points out that it is important in qualitative analysis to balance discipline with creativity. While coding is the systematic and disciplined part of the analysis, memoing is the more creative part of the analysis. Coding and memoing together provide the building blocks for this kind of qualitative analysis. In this research, when some idea came to my mind during coding, I usually stopped coding for a while and recorded the idea. All memos were kept in storage for subsequent use.

Conclusion drawing is the third part of the analysis. This work starts from a point where ordering and integration of the previous analysis are required. (Punch 2004, p.207) After coding and memoing, the analyst has many labels and piles of memos. The aim of this stage is to integrate what

has been done into meaningful and coherent picture of data. (Punch 2004, p.208) In this way, the researcher arrives at the conclusions.

## **4.2. QUANTITATIVE RESEARCH METHODOLOGY**

Quantitative research is empirical research where the data are in the form of numbers. (Punch 2004, p.4). In quantitative research methodology, the key concept is quantity, and numbers are used to express quantity. Quantitative data are numerical. This means that information about the world is presented in the form of numbers. In this research, quantitative methods are used to test Tiebout model only. To conduct quantitative analysis, there were collected quantitative data by means of survey (questionnaires). By conducting survey, there were filled out 100 questionnaires. The survey was conducted in the center of the district Bayandai and five villages of the district (Pokrovka, Ongoi, Olzony, Nagalyck, Zagatui). Respondents were adult representatives (over 20 years old) of households. Households were chosen randomly. About 90% of respondents were at the age between 30 and 55.

In general, quantitative methods play supplementary role in this study.

### **4.2.1. Survey questionnaire**

Survey is one of the major tools of collecting quantitative data. The centerpiece here is the survey questionnaire. The questionnaire seeks factual information (background and biographical information, knowledge and

behavioral information), as well, it involves measures of attitudes, values, opinions or beliefs. (Punch 2004, p.103)

In this research, as it was noted above, quantitative methods are used to test Tiebout model. Thus, Tiebout model was the theoretical framework for the development of the questionnaire. Questions in the questionnaire were formed in the way that gives information about the degree of satisfaction of the residents by the quality of educational and health services as well as gives information about the willingness of residents to move to other jurisdictions, where educational and health services are of better quality.

The questionnaire is presented in Appendix 3.

I have to make clear that quantitative methods are used in this work for testing Tiebout model only. This does not mean that Tiebout model is tested by quantitative methods only. In fact, Tiebout model is tested by both qualitative and quantitative methods. In addition to the survey, there were conducted five interviews with residents of the District of Bayandai to deepen understanding of people's reaction to local government's performance in the areas of education and health.

#### **4.2.2. Research design**

Objectives of the research and research questions guide the research design. Quantitative part of the research tests Tiebout model. Thus, Tiebout model guided quantitative part of the research and was instrumental in the analysis of data. The main sources of data are questionnaires.

### **4.2.3. Method of analysis**

To analyze quantitative data, in this research simple statistical methods are used, namely, descriptive statistics.

As it was mentioned above, quantitative methods are used in this work only to test Tiebout model. To test Tiebout model, there was conducted simple survey to find out an average opinion of the residents of the Bayandai District, if they are satisfied by the quality of educational and health services; if not, are they planning to move out from the district to more attractive place. So, my purpose was to find out an average opinion; to do this, conducting simple statistical analysis would be enough. To conduct such analysis, there was used SPSS statistical package.

Summarizing this chapter, I would like to note that the main aim of this thesis is to study the local government's role in the provision of public goods in Russia. The research is concentrated on the case study of Bayandai District (Irkutskaya oblast); and the provision of two public goods, namely health and education, is studied. Analyzing empirical data collected by means of eleven interviews and the survey (100 respondents), I made efforts to answer research questions of the thesis.



## 5. THE ROLE OF THE LOCAL GOVERNMENT IN PROVISION OF EDUCATIONAL AND HEALTH SERVICES – A CASE STUDY OF AYANDAI DISTRICT (IRKUTSKAYA OBLAST, RUSSIAN FEDERATION)

### 5.1. Brief characteristic of Bayandai District (Irkutskaya oblast, Russia)

Bayandai aimag with center in the village of Bayandai was established of nine “*buluchnyh*”<sup>4</sup> and rural councils of Ekhirit-Bulagat aimag by Decree of the Presidium of the Supreme Soviet of the RSFSR of 19 April 1941. Over the years of its existence, the district went through a number of changes – it had been a member of Ekhirit-Bulagat district for more than 11 years, then it was reorganized into independent district in February 1975.



Picture 1. Map of Irkutskaya oblast, Russian Federation

<sup>4</sup> Buluc – in old times some villages were called “buluc”, the meaning of which is “village”

Bayandai district is located in the south of Irkutskaya oblast and in the north-eastern part of Ust-Orda okrug, at the top of the watershed Lena-Yenisei and near the famous Lake Baikal, which contains 20% of world's reserves of fresh water and unique flora and fauna. Bayandai district stretches along the Yakutsk road - a 100 km long and 40 km wide in the area of 375619 hectares. The district center – village of Bayandai, the distance to the regional center of Irkutsk - 130 km. It is connected with the regional center by highways. Through district run following roads: Ust-Orda - Kachug - 83 km, Bayandai - Elantsy - 23 km, other - 338 km.

The climate is continental with long severe winter and short and quite warm summer. The temperature during winter time might be minus 40-50°C and up to 35-40°C in summer time. The snow cover is formed at the end of November. Winters are rather snowy. The soil freezes up to 3 meters. Seismicity is 8 points.

In the western part of the district there are rivers Tamara, Murin and Ishin-gol, in the north-east – rivers Ungur and Hodantsa.

The forest area in the district is 226,341 hectares, including available for use area of 170,126 hectares.

One of the main factors determining the socio-economic development of the municipality is its resource potential.

In Bayandai district there is the largest in the okrug thermokarst lake Nuhu-Noor. And one and half-two kilometers to the north of the Lake Nuhu-Noor group of lakes of termokarst origin, Bakhay and Bayandai, is concentrated. These lakes are rather small with depth of about 1-1.5 meters.

A health resort "Nagalyk" uses the mud of the lake Nuhu-Nur, which has medical properties.

As well, Bayandai district has a variety of natural resources and the rational use of these resources may contribute to the successful development of the district's economy. The district is rich of building materials – for example, there are large reserves of gravel deposits in 1.5 km from the village of Hogot. The oldest rocks deposits are located in Bayandai, Melzany, Lyury. These deposits are represented by various clay, loam, suitable for the manufacture of ceramic and tiles, porcelain and earthenware, bustilat, putty, latex paint, bricks.

In 1936, two and half kilometers to the north of the district center Bayandai there was discovered a large deposit of coal, Laphayskoe. The reserves are estimated at 56 million tons. In addition, there were discovered deposits of brown coal: Bayshinskoe with reserves of 8 million tons, Tuhumskoe with reserves of 4 million tons, Kyrmenskoe with reserves of 15-20 million tons, Eleninskaya with reserves of 50 million tons, Vershinskaya with reserves of 31 million tons. There are large reserves of limestone in the area Lidinsk used in the poultry industry. Despite existence of these reserves, nowadays mining is not active in the district.

Agriculture is the main branch of the district's economy. Traditionally, the livestock sector and crop production are developed. By 01.01.2010, the total number of cattle at farms of all categories was 24801, horses - 3128, sheep - 4771, pigs - 2127.

## *Local self-governance*

Local self-governance (*mestnoe samoupravlenie*) is one of the foundations of the constitutional system of the Russian Federation, it is guaranteed on the whole territory of the Russian Federation.

As it was mentioned above, Bayandai district was formed April 19, 1941 by the Decree of the Presidium of the Supreme Soviet of the RSFSR.

The municipality "Bayandai district" (*munitsipalnoe obrazovanie "Bayandaevskii raion"*) in accordance with the law of the Ust-Orda Buryat Autonomous Okrug<sup>5</sup> of 17.12.2004 # 60-oz "On vesting the municipality "Bayandai district" of Ust-Orda Buryat autonomous okrug status of the municipal district and the delineation of municipality "Bayandai district" is endowed with the status of the municipal district.

The territory of the municipal district includes the following rural settlements, which are independent municipal areas:

- 1) The municipality "Bayandai" with the center in the village of Bayandai;
- 2) the municipality "Vasilyevskaya" with the center in the village of Vasilevka;
- 3) The municipality "Gahany" with the administrative center in the village Badagui; ;

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<sup>5</sup> Okrug includes several districts. Ust-Orda Buryat autonomous okrug (which includes several districts) is part of Irkutskaya oblast.

- 4) The municipality " Kurumchinsky " with the administrative center in the village of Zagatui;
- 5) The municipality " Kyrma " with the center in the village of Baisha;
- 6) municipal "Lury" with the administrative center in the village of Lury settlement;
- 7) Municipality " Nagalyk " with the center in the village of Nagalyk;
- 8) municipality " Olzon " with the center in the village of Olzon;
- 9) municipality "Pokrovka" with the center in the village of Pokrovka;
- 10) the municipality "Polovinka" with the center in the village of Polovinka;
- 11) the municipality " Turgenevka " with the center in the village of Turgenevka;
- 12) the municipality " Hogot " with the center in the village of Hogot.

Administrative center of the municipal area, in accordance with the law of Ust -Orda Buryat Autonomous Okrug of 17.12.2004 # 60-oz "On vesting the municipality "Bayandai district" of Ust-Orda Buryat autonomous okrug status of the municipal district and the delineation of municipality "Bayandai district", is the village of Bayandai.

The local government's task is to solve questions of local importance (*voprosy mestnogo znacheniya*). According to the local government official, questions of local importance are those concerning social and economic development of the district.

The issues of the local government's competence are represented in Appendix 4. Yet, what appears in Appendix 4, is not a complete list of

responsibilities of the local government of Bayandai District, but even so, it is already quite long one. After conducting interviews and doing analysis, I have arrived to the conclusion that the problem is not responsibilities itself, but financial capacities of the local government to perform these functions.

In the beginning of 1990s the collapse of the Soviet Union and market reforms caused decentralization (quite often spontaneous) of the government in Russia. President Yeltsin's famous expression addressed to regions "You can get as much independence as you can swallow" was a clear message for decentralization. But it was difficult time: economy was stagnating; budget was suffering from deficit, so on. Fiscal crises of the 1990s made possible *de facto* devolution of responsibilities from the federal government to regional governments, and from regional governments to local governments. Over-burdened by responsibilities, local governments routinely divided scarce resources between these responsibilities. Highly dependent from transfers from higher levels of government, local authorities did not have much choice and freedom in their activities.

Nowadays, the practice of unfinanced devolution of responsibilities from the upper levels of government to the lower levels is significantly decreased. I think the problem now is not so much about over-burden by responsibilities, but lack of own revenues, high dependence from transfers from upper levels of government, insufficient decision-making powers.

Below brief analysis of the budget of the local government of Bayandai District is represented. This analysis demonstrates high financial dependence of the local government from upper levels of government.

### ***Local budget***

Local budget (or local government budget) is revenues and expenditures of the local government.

Data on the local budget revenues of Bayandai District are represented in the Table 1.

Table 1

Local budget revenues of Bayandai District, thousand roubles

	2011	2012
Total	308734	369370
Taxes on personal income	12251	17624
Aggregate income tax	2271	2805
Unified tax on imputed income for certain types of activities	2095	2187
Single agricultural tax	35	151
Government duty	1621	578
Revenues from use of property owned by the state and municipal property	1218	936
Payments for the use of natural resources	13	31
Fee for a negative impact on the environment	13	31
Revenues from sales of tangible and intangible assets	241	1985
Transfers from other budgets of the Russian Federation	124501	178563

From total revenues – own revenues	184233	190807
Percentage of own revenues in the total revenues, %	59,7	51,7

In 2011, the total revenue of the district was 308734 thousand roubles, in 2012 – 369370. In 2011, from the total amount of revenues, own revenues were 184233 thousand roubles, or 59,4%, in 2012 – 190807, or 51,7%. Thus, in 2011 transfers from upper level budgets set up 40,3% of the total revenues, in 2012 – 48,3%. (The average of two years is about 44%). Such situation says about high degree of dependence from transfers from upper levels of government. I have to mention that the purpose of analysis of the data represented in Table 1 was not just comparisons of two years. Instead, my intention was to represent general picture of the local budget, its dependence/independence from other budgets. I realize that the analysis of data for three consequent years would be even more convincing, but the only data available to me were data for two consequent years. And the data for both years confirm high financial dependence of the local government from upper levels of government.

Expenditures of the local government of Bayandai District are represented in the Table 2.

Table 2

Local budget expenditures of Bayanday District, thousand roubles

	2011	2012
Total	309432	373093
Budget investments to increase the value of	5594	24442



fixed assets		
National Issues	31549	37859
Expenditure on the employees of local governments	23363	27994
National security and law enforcement	336	151
National economy	2931	535
Housing and utilities	837	666
Budget investment (housing and utilities) to increase the value of fixed assets	255	241
Education	184780	226592
Pre-school education	21143	25428
Budget investment (pre-school education) to increase the value of fixed assets	551	52
Expenditures on salaries (pre-school education)	18487	23399
General education	160665	187006
Budget investment (general education) to increase the value of fixed assets	1497	15377
Expenditures on general education in part of current expenditures	153516	163212
Expenditures on salaries (general education)	127836	143297
Culture	21185	40036
Budget investment (culture) to increase the value of fixed assets	2878	1760
Expenditures on salaries (culture)	5277	7594
Culture, cinematography	21185	40036
Health care	39676	41379
Budget investment (health care) to increase the value of fixed assets	116	585
Expenditures on health care in part of current expenditures	36587	37601
Expenditures on salaries (health care)	23483	31438
Physical Culture and Sports	1048	1204
Social policy	5520	12460
Intergovernmental transfers of general	19992	10198

character to the regional budgets and counties' budgets		
Equalization grants to regional budgets and counties' budgets	3714	4056

In 2011, expenditures on education were 184780 thousand roubles, in 2012 – 226592. These expenditures include expenditures on both general and pre-school education. But expenditures on the general education are financed mostly from the transfer money (not from own local revenues); expenditures on pre-school education are financed from own local revenues, In 2011, expenditures on pre-school education were 21143 thousand roubles, or 6,8% of the total expenditures, or 11,4% of own expenditures. In 2012, expenditures on pre-school education were 25428 thousand roubles, or 6,8% of the total expenditures, or 13,1% of own expenditures.

Expenditures on health care in 2011 were 39676 thousand roubles, or 12,8% of the total expenditures, in 2012 – 41379 thousand roubles, or 11,1% of the total expenditures. Expenditures on health care are financed by transfer money.

Thus expenditures on general education and health care are financed mostly by transfer money from upper level budgets (federal and regional). This informs us about high degree of centralization in the areas of education and health care in Russia. Expenditures are financed from the centrally provided transfers, which is one of the signs of centralization of the provision of educational and health services. Again, as in the case with revenues, analyzing expenditures, I tried to present the general pattern of expenditures (not just comparison of two consequent years). And the pattern

of expenditures in the district says about centralization of the provision of educational and health services.

## **5.2. The role of the local government of Bayandai District in provision of educational services**

Education in Russia is provided by the state, which ensures that general education is free and available for everyone. Majority of schools are state schools, but in recent years private schools have also been established.

Pre-school education in Russia is not compulsory. Children before the age of six usually go to kindergartens or other pre-schools where kids are engaged in both intellectual and physical activities. After pre-school, the next step is primary school. Primary school is part of the general education programme.

General education in Russia comprises three stages: primary education, basic general and secondary education. Primary school lasts four years, basic general education lasts five years, secondary education lasts three years. The academic year typically begins on 1 September and ends in the end of May, it consists of thirty four weeks of study.

General education is compulsory. In the basic curriculum, there are some compulsory fields of study such as mathematics, natural sciences, the Russian language, foreign languages, history, etc. Each school develops its own curriculum, which is based on state requirements, and there can be, in addition to compulsory fields, some extra or optional disciplines.

After completing basic general education, students take final exams. They are awarded a Certificate of Basic General Education (*Attestat ob Osnovom Obshchem Obrazovani*). After completion of basic general education, students can be admitted to either secondary general education, to vocational education or to non-university level education.

After finishing the secondary general education, the students have to pass the final exams. After passing the final exams, students are awarded a Certificate of Secondary General Education (*Attestat o Sredem Obshchem Obrazovanii*). This certificate allows students to continue their education and get higher education (university level education). As well, the certificate allows students to get vocational education or non-university level education.

In total, general education takes eleven years to complete. Children are usually enrolled in schools at the age of six and they finish school by the age of seventeen.

Now I will turn to issues of the provision of educational services in Bayandai District. To collect data on the local government's role in the provision of educational services, there were conducted interviews with local government officials. During interviews, there were discussed such issues as organisation of education in the district, the local government's involvement in the provision of education in the district, the local government's activities and their impact on the quality of education, the local government's decision-making power (concerning education) and some other issues.

During interviews, all local government officials confirmed that the local government of Bayandai District is responsible for the organization of education in the district. There are fourteen general schools and fourteen pre-schools in the district, which provide pre-school education, basic general

education and secondary general education. According to the local government officials (of Bayandai District), the local government is involved in the provision of education mainly in two ways. Firstly, the local government provides buildings for schools, heating, water and other local infrastructure. Secondly, the local government organizes and participates in different educational events, and through such activities it makes efforts to contribute into the provision of good education in the district.

Thus, firstly, the local government is responsible for the provision of buildings for schools, for keeping buildings and other infrastructure in good condition. It is responsible for provision of smooth operation of infrastructure during academic year. One of the local government officials told:

*The local government's task is to provide infrastructure for education and guarantee its good work during school year. Each year, in August, commission which includes representatives of the local government checks preparedness of school buildings for the coming school year. During summer time all schools have to be renewed, cleaned, painted, repaired, etc.; all repairing work should be finished by the mid of August. The local government and school directors are responsible for all schools being renewed and refreshed during summer time and for all repairing work being finished by the mid of August.*

In interview with other official, I was informed that expenditures related with maintaining educational infrastructure in good condition are financed from the local budget.

Secondly, as it was noted above, the local government contributes to the promotion of good education in the district through organization of different educational events and activities. In interviews the local government officials told that the local government has organized and participated in a number of events and activities. As an example, it was mentioned that the local government has organized the work with “problematic” parents. One local government official told in interview:

*In the district, there are some families, where parents have problems with alcohol and do not care well of their children. The local government together with schools created data base of such “problematic” families; representatives of the local government and schools regularly visit those families and monitor regularly the condition of living of children in those families. As well, the local government with schools organizes the work to prevent crime among youth. In fourteen schools (i.e. in all schools of the district) there are created councils for the work with difficult teenagers.*

The other mentioned example was the work with a pedagogical cadre. One of the interviewees (local government official) informed that, to support pedagogical cadre, the local government with schools established “School of young teacher”, where different events like master-classes, round tables, methodical lectures are organized for young teachers. In addition, the local government supports participation of the district teachers at different regional events like summer and winter schools and courses in Irkutsk; in this way the local government contributes to improvement of teachers’ qualification.

Yet another mentioned example of activity, in which the local government has been involved, was the organization of summer health seasons for district children. Each summer, there have been organized health camps (*letnie osdorovitelynye lagerya*), where children rest and receive some simple health support. It was told by interviewee (local government official):

*Each summer the local government organizes summer rest and health improvement for school children with some health problems at such recreational centers as Arshan and Nagalyk and other recreational centers.*

The local government is fully responsible for running pre-schools. Pre-schools are financed from the local budget. According to the local government officials, situation with pre-schools (kindergartens) is not so good in the sense that not all children up to age six can attend pre-schools because of not enough pre-school organizations and not enough places at them. One local government official told:

*Currently, the situation is such that only 32% of the district children up to age six attend pre-schools. There is a long line of children to get place at the pre-schools. There are cases in the district when some children did not have a chance at all to attend pre-school even for a short time before going to primary school.*

Obviously, such situation significantly impacts children's preparedness for primary school. According to the local government official, those children who attend pre-school are prepared well, they even know already how to

read and write, while those kids who did not attend pre-school did not get enough opportunities for early development.

As for primary schools, 100% of the district children at the age of six begin attending primary schools. The local government official told in interview:

*There are no problems in the district with numbers and places at primary and general schools. All children have an opportunity to attend primary and general schools.*

During interviews there were discussed the issues of the local government's involvement in the curriculum development and the local government's direct impact on the quality of teaching. According to the local government officials, the local government is not involved directly in the curriculum development process. The main curriculum is defined by federal requirements. Schools have the right to add to the main curriculum some additional or optional classes. As well, the local government is not involved directly what is going on in the classrooms, the quality of teaching of particular classes. Schools themselves and branch of regional Ministry of education control the quality of education and fulfilment of the main curriculum.

In the district, there are small remote villages, and there are school children at these villages. According to the local government officials, it is difficult to organize separate school for 1-2-3 children (since villages are very small, there are just a few kids there) and find teacher for them. In these cases, bus transportation to the nearest school is organized on the every



school-day basis. To me personally, it was very good news. To the best of my knowledge, about ten years ago there was no such transportation, and kids usually lived with relatives to attend schools (far from their own parents). To spend five-six days a week in someone's family, far from own parents, could be emotionally difficult for young children. Moreover, it could negatively impact children's school performance.

During interviews, there were discussed the issues of financing expenditures. According to the information, provided by the local government official, textbooks and equipment are financed from the federal budget, salaries of teachers and other school staff are financed from the regional budget, pre-school education, expenditures related to keeping buildings and other infrastructure in good condition, organizing educational events are financed from the local budget. All interviewed local government officials confirmed that the local government of Bayandai District has limited (own) financial resources for the provision of educational services.

During interviews there were discussed questions of decision-making power. After analyzing data, I have arrived to conclusion that the local government has limited decision making power concerning provision of education in the district. All significant issues such as the main curriculum, salary rates, provision of textbooks, contents of final examinations are completely defined by the federal authorities, i.e. centrally. The local government has decision making power concerning maintenance of buildings and other infrastructure, organization of events and pre-schools' work. This situation allows us to conclude that provision of education is mostly centralized in Russia. The local government plays supplementary role, very often it considers itself as an implementer of federal requirements. As an implementer of federal requirements, the local government of

Bayandai District performs well (or at least, not bad). Evidence for it is schools' performance. The outcome of schools' work is the students' knowledge. The main indicator used in the district to measure the success or failure of the provision of education is the students' performance on final exams and their success in enrollment at the universities. According to the data provided by the local government officials, in the year of 2011 there were 105 graduates of general schools in the district, from which 102 were successful on final examinations, 68 students were enrolled at the universities, 28 – at colleges. As for the year of 2012, there were 101 graduates, 94 students were successful on final examinations, 53 students were enrolled at the universities, 40 students – at the colleges. In my opinion, having more than 50% of graduates being enrolled at the universities on competitive base is quite good indicator of schools' performance in the district.

Utilizing Riker's theory of federalism and Oates's theory of federalism, it is possible now to make conclusions concerning the provision of education in Russia.

Since provision of education is mostly centralized in Russia (with minor roles of the local government), according to Riker's theory of federalism, Russia is a centralized federation in the area of provision of educational services.

According to Oates's theory of federalism, it is economically more efficient to decentralize provision of (local) public goods and make local governments more responsible for the provision of public goods since local governments have informational advantages, they are better informed about local needs and respond to satisfaction of local needs more fully. Thus, according to Oates's theory of federalism, the provision of educational

services is not efficient in Russia since the local government plays minor role in the provision of education, therefore, the local needs are not satisfied fully.

What can be done to improve situation?

In local government officials' opinion, to improve situation, to increase the quality and quantity of educational services, the local government needs more resources, first of all, financial resources. Additional financial resources would help to hire more teachers, organize more optional classes, which would develop children's creativity and talents. The local government officials expressed moderate interest in getting more responsibility, more independence, more decision making power in the area of the provision of educational services. I had an impression that the local government is rather satisfied by its position as implementer of the federal instructions and directives. On the other hand, indicators of the quality of educational services in the district are good, which allows us to conclude that probably centralized style of provision of education in Russia works well. But this highly centralized style means that the local preferences and needs are not taken into account. For example, in the case of the Bayandai District, ethnic part of the district population might have preferences for their kids to study their own languages. In the district, there are different ethnic groups such as Buryats, Tatars, Ukrainians, but children of these ethnic groups mostly do not have opportunities to study their own languages. A few schools offer some Buryat language classes as additional or optional classes, but with limited hours of learning. People's opinion about studying ethnic languages at schools was never studied. If the existing model of provision of education in the district would be supplemented with more independence, resources, initiatives of the local government, with more

satisfaction of the local needs, it would be beneficial for the quality and quantity of educational services in the district. I am not suggesting to completely decentralize provision of education. In fact, I agree with Bardhan's arguments that the central government can have the economies of scale in designing curricula and enforcing minimum quality standards. System works well when the key issues of education like curricula, quality standards are defined centrally. The local government can contribute to this system by its policies and actions which take into account local needs.

### **5.3. The role of the local government of Bayandai District in provision of health care services**

In Russia, health care services are provided both publicly and privately. All citizens are provided by public health care. Along with public health care, private health care system exists, where people can get medical services for fee (people pay fee from their own pocket). It is thought that in private clinics the quality of medical services is higher than in public clinics, although, it is quite often when doctors working at private and public clinics are the same people.

Public health care system is financed from the state budget and from the centralized Fund of Obligatory Medical Insurance. Private health care, as it was mentioned above, is provided for fee.

The issues of health care organization in the district, financing, the role of the local government in the provision of health care services and in

some extend the issues of public health in the District of Bayandai were discussed during interview with the Main Doctor (medical)<sup>6</sup> of the district.

There are seven hospitals in the District of Bayandai, the central hospital is located in the district center Bayandai. In addition to the hospitals, there are twenty one nurse centers (*feldsherskii puknt*). Health care services in the district are provided publicly, there are no private clinics in the district.

Demographic situation in the district, according to the Main Doctor, looks as follows:

	2010	2011	2012
Birth (babies)	201	195	279
Mortality (people)	165	153	155
Changes in population	+36	+42	+124

As we can see, there is a natural growth in district's population, which is a positive sign.

According to the Main Doctor, the most widespread diseases in the district are heart diseases, traumas, diseases of breath organs. One of the serious diseases in the district is tuberculosis. There are also several cases of AIDS (5 people are infected by AIDS).

As for medical cadre, there is a shortage of specialists and nurses. Graduates of the medical universities are not willing to go to rural areas for living and jobs. In the cities, there are more job opportunities, including jobs at private clinics with higher salaries. To encourage health care specialists to work in rural areas, there was adopted federal program "Zemski vrach".

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<sup>6</sup> Further referred as the Main Doctor

Under this program, medical specialists, who move to rural area to work, are awarded federal government grant (in the sum of 1 million roubles). In 2012, under this program four high qualified specialists moved to Bayandai District from the city of Irkutsk.

As for financing medical expenditures, they are financed from upper levels budgets, i.e. medical expenditures are not financed from the local budget. According to the Main Doctor, there is permanent under-financing. When money is asked from upper budgets, for example, for equipment, improving hospitals' infrastructure, usually half of the asked money is provided.

The Main Doctor was quite critical to the local government's performance in the area of health care. According to her opinion, local government's role is minimal in the health care area. The local government could be more active in providing social infrastructure for health care sector. The Main Doctor in interview said:

*The local government could provide housing for medical specialists or give some support in finding housing for new specialists. In fact, it does almost nothing.*

In interview the local government official said that the local government provides heating and water for health care sector in the district. But the Main Doctor contradicted this statement. She said:

*The local government provides water and heating, but the upper budgets pay to the local government for these services.*

So, the local government organizes provision of heating and water for hospitals and nurse centers; for these services the local government is paid from upper budgets. Besides of this role as provider of heating and water, the local government does not impact the quality and quantity of health care services in the district. All aspects of the provision of health care services are defined according to decisions and requirements of the upper levels of government and government agencies (mostly federal and some regional). This situation allows us to conclude that the public provision of health care services in Russia is centralized.

According to Riker's theory of federalism, Russia is a centralized federation in the health care area (with minimal role of the local authorities in provision of such public good as health care).

According to Oates's theory of federalism, provision of health care services in Russia is inefficient since provision of health care services is centralized without taking into account of local needs.

What can be done to improve the situation?

On the one hand, I consider tendencies of centralization of provision of health services in Russia as positive ones. In 1990s, Russian health system have undergone through the wave of decentralization which negatively affected the quality of health services and access to health services. With centralization of health services provision, there was introduced some standardization of requirements for provision of health services, which positively affected the quality of health services and access to health services.

On the other hand, these positive impacts of centralization of provision of health services could be supplemented by more active role of the local governments since the local governments are informed well about

their areas of jurisdiction. In Bayandai District there are remote villages without any nurse centers. Even simply to measure blood pressure is a problem for residents of these villages, many of whom have not seen any doctor for years. The local government of Bayandai District is well informed about situation with health services (absence of them) in these villages. If the local government has resources, first of all, financial, and is more active in taking initiatives, it could organize nurse centers in these villages.

Thus, to improve the situation with provision of health services, the local government of Bayandai District needs more resources (financial, technical, administrative), more decision-making powers as well as the local government should be more active in taking initiatives in provision of health services.

#### **5.4. “Voting by feet” – citizens’ response to the local government’s performance in the areas of education and health care**

Tiebout model says that if residents of certain municipality are not satisfied by the quality and quantity) of public goods in their municipality, they will move to other municipalities where their needs and preferences can be better satisfied (i.e. residents “vote by their feet”). In this section I am going to test Tiebout model for the case of Bayandai District. As it was mentioned above, to test Tiebout model, there was conducted a survey. The purpose of the survey was to find out residents’ opinion about the provision of public goods (education and health) in the district: are residents satisfied



by the kind of provision of education and health in the district; are residents planning to move to other places for better satisfaction of their needs and preferences for public goods. Empirical data, collected during the survey, was analyzed by using statistical package SPSS: there was conducted simple descriptive analysis to find out an average opinion of residents of the district. The results of statistical analysis are represented in the Table 3.

Table 3

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Age	100	18,0	62,0	39,380	9,6930
Education	100	1,0	4,0	2,250	,8919
Would you like to move to other place of living (to other municipality) in the coming future?	100	1,00	5,00	2,3800	1,43393
Are you satisfied by the quality of education (for your children) at the place of your current living (at your municipality)?	100	1,00	5,00	2,4300	1,38283
Do you think that your children would get better education if they attend other school at other place?	100	1,00	5,00	3,1300	1,12506
Are you satisfied by the quality of health services in your municipality?	100	1,00	4,00	1,8600	,77876

Do you think that the quality of health services is better at other place?	100	1,00	5,00	3,6300	1,09779
Can you afford of buying apartment or house in more attractive (better schools, better, health services) for you place, for example, in the city of Irkutsk?	100	1,00	5,00	1,6100	1,06263
Can you afford renting apartment or house in more attractive for you place, for example, in the city of Irkutsk?	100	1,00	5,00	2,0800	1,35348
Is life in the city stressful for you?	100	1,00	5,00	2,8000	1,62057
Is communication and keeping close relationships with extended family and friends important and valuable for you?	100	1,00	5,00	4,0800	1,50205
Valid N (listwise)	100				

Answers to questions in the questionnaire ranged from 1 to 5: 1 – No, 2 – Almost no, 3 – I don’t know, 4 – Almost yes, 5 – Yes.

An average answer to the question “Are you satisfied by the quality of education (for your children) at the place of your current living (at your municipality)?” is 2,43, i.e. the answer is “Almost no”. So, the analysis shows that an average resident of the district is rather not satisfied by the quality of education in the district. On the other hand, as it was mentioned above, an indicator for education quality in the district, i.e. number of

students enrolled to the universities, is good, more than 50%. But residents answer that they are not satisfied by the provision of educational services in the district. This situation, probably, can be explained by the fact that parents are usually rarely satisfied by the quality of education for their children. There is always room for improvements. In the case of Bayandai district, indeed many aspects of education can and should be improved (not all schools have good teachers, not all schools offer lunch for students, not all schools organize summer camps for children, etc.)

An average answer to the question “Are you satisfied by the quality of health services in your municipality?” is 1,86, i.e. the answer is “Almost no”. In comparison with educational services, residents are less satisfied by the quality of health services. Indeed, in conversation with residents, I very often heard negative attitude to the quality of health services in the district. And the analysis of the survey gives us clear answer of dissatisfaction of residents concerning health care services.

Thus, residents of Bayandai District are not satisfied by the quality of educational and health services in the district. According to Tiebout model, in this case residents should be willing to move to other places, where their needs and preferences would be better satisfied. But as the analysis shows, an average resident is not willing to move to other place. An average answer to the question “Would you like to move to other place of living (to other municipality) in the coming future?” is 1,38, i.e. “Almost no”. Such answer can be explained by the costs of moving and finding appropriate housing in new place. An average answer to the questions “Can you afford of buying apartment or house in more attractive (better schools, better, health services) for you place, for example, in the city of Irkutsk?” and “Can you afford renting apartment or house in more attractive for you

place, for example, in the city of Irkutsk?” are 1,61 and 2,08, respectively, i.e. answers to these questions are “Almost no”. Thus, residents of the district are not willing to move to more attractive for their place because of expensive housing in a new place. As well, keeping close social relationships looks like impacting the decision of not moving to other place. An average answer to the question “Is communication and keeping close relationships with extended family and friends important and valuable for you?” is 4,08, i.e. “Almost yes”. This result says that residents value social relationships and are rather not willing to lose or weaken these relationships by moving to other place.

In addition to the survey, there were conducted interviews with five residents. These interviews supported the survey analysis results. All five interviewees expressed dissatisfaction by the quality of public goods in the district. Among five interviewees, only one was planning to move to the city of Irkutsk in the nearest future. Among reasons of not moving to other place were “expensive housing”, “difficult to find job”, “I am used to live here”, “I have friends and good connections here, it is very important for me”, “It is very noisy and stressful in the city”. All these answers support the survey analysis results.

Summarizing this section, it is possible to make conclusion that in the case of Bayandai District, Tiebout model does not work. Residents are not satisfied by the provision of public goods in the district, but they are not willing to move to other place.

### **5.5. The role of the local government of Bayandai District in provision of education and health services - summary**

Conducted study demonstrates that provision of education and health care is mostly centralized in Russia.

The local government has limited decision making power concerning the provision of education. All significant issues such as the main curriculum, salary rates, provision of textbooks, contents of final examinations are completely defined by the federal authorities (in less extent, regionally), i.e. centrally. The local government has decision making power concerning organizational issues such as maintenance of buildings and other infrastructure, organizing events. As well, it is the responsibility of the local government to provide pre-school education. Functioning of pre-schools, maintenance of buildings and infrastructure, organizing educational events are financed from the local budget; all other expenditures are financed from upper level budgets (regional and federal). In general, the local government plays supplementary role, very often it considers itself as an implementer of federal requirements.

In the provision of health care services, the local government plays even lesser role. In the case of Bayandai District, the role of the local government is limited by provision of heating and water, the local government has decision-making power concerning only heating and water provision. All other issues of the provision of health care services are defined by regional and federal authorities. All expenditures on health care are financed from upper level budgets (regional and federal).

According to Riker's theory of federalism, Russia is a centralized federation both in education and health care spheres.

According to Oates's theory of federalism, the provision of both education and health care is inefficient in Russia since the existing pattern of the provision of educational and health care services does not take into account local needs and preferences for education and health care.

What are the reactions of residents to this situation? The study showed that the majority of residents are not satisfied by the existing quality (and to some extent, quantity) of public goods (education and health care). But despite this dissatisfaction, residents are not willing to leave the district for better place. Among reasons for this behavior are expensive housing, stressful life in the city, social network people have in their current place of living. Tiebout model assumes that citizens are mobile and easily move to other municipalities where their needs can be better satisfied. But the case of Bayandai District shows that residents of the district are not mobile and are not ready to move easily to other place of living (where their preferences for education and health care can be better satisfied). This outcome allows us to conclude that Tiebout model does not work in the case of Bayandai District.

## **5.6. Recommendations for improvement of provision of educational and health care services in Bayandai District**

Based on the conducted research, there are some recommendations for improvement of the provision of public goods in Bayandai District:

1. For the central and regional governments - to provide the local level of government with more powers and competences in the areas of education and health.
2. For the local government - to increase its own revenues and get more financial independence.
3. For the local government – to take initiatives in improving its knowledge on local needs and preferences for public goods.
4. For the local government – to be more active in meeting local needs and preferences for public goods.
5. For the local government - to conduct surveys regularly to get information about residents’ opinion about the provision of public goods in the district; to use this information during the process of policy design regarding the provision of public goods.

## **6. CONCLUSION**

This study was undertaken as an attempt to understand the role of the local government in the provision of public goods in Russia. The conclusion of findings is presented in this final chapter. To proceed, it is useful to revisit objectives of the study.

There were five objectives of the study. The first objective was to study what powers and competences does the local government have in the areas of education and health. The research revealed that the local

government of Bayandai District has limited decision-making powers and competences in the provision of health and education in the district.

The second objective was to investigate the local budget, i.e. the budget of the Bayandai District with emphasis on revenue formation (local taxes, transfers) and expenditures on education and health care. The analysis of the revenue side of the local budget demonstrated that the local government of Bayandai District is highly dependent from transfers from upper levels of government. The analysis of expenditure side of the local budget showed that educational and health services in the district are provided mostly centrally.

The third objective was to study the local government's activities in the areas of education and health: how, in what way the local government supports education and health care sectors. The study allows us to conclude that the local government plays limited role in the provision of educational and health services. The local government provides buildings and other infrastructure and organizes different events in the sphere of education. Regarding the provision of health services, the local government's role is limited by providing heating and water for hospitals.

The fourth objective was to study how well the local government's policies and practices respond to local preferences and needs. The study revealed that the local needs and preferences for public goods are not responded fully in the district.

The fifth objective was to study how local residents evaluate and react to the performance of the local government in the areas of education and health. The study found that residents of the district were not satisfied by the quality (and to some extent, quantity) of educational and health services in



the district. On the other hand, residents of the district do not express the willingness to leave the district for more attractive place.

This study made use of three theories: Riker's theory of federalism, Oates's theory of federalism and Tiebout model.

Conducted research allows us to conclude that (a) according to Riker's theory of federalism, Russia is a centralized federation both in education and health care spheres; (b) according to Oates's theory of federalism, the provision of both education and health care is inefficient in Russia since the existing pattern of the provision of educational and health care services does not take into account local needs and preferences for education and health care; (c) Tiebout model does not work in the case of Russian municipalities because of the low mobility of the population.

Thus, the main conclusions of the study are the next. The provision of public goods (education and health care) in Russia is centralized. The local government plays limited and little role in the provision of educational and health care services. This means that the level of government which is close to citizens and better informed about local needs and preferences plays little role in the provision of public goods. Therefore, citizens' demand for public goods is not satisfied fully. To change this situation, it is necessary to provide the local government with more competences and decision-making powers in the spheres of the provision of educational and health care services. The local government should be more active, bold and more willing to take initiatives concerning the provision of public goods.

Finishing this thesis, I would like to think about what topics for future studies will be interesting in this research area. I think comparative analysis of local governments' role in the provision of public goods in Russia and other countries would be very interesting.

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## **Appendix 1. Definition of key terms and concepts**

**Centralization** – centralization is the process by which the powers, competences become concentrated within central authorities.

**Decentralization** – decentralization is the process of redistributing or dispersing functions, powers, competencies from a central authority to sub-national authorities.

**Efficiency** – in this work, this term is used in the context of decentralization and provision of public goods. In this context, efficiency means better and more full satisfaction of residents' needs and preferences for public goods.

**Federalism** – federalism is a system of government which powers, responsibilities, competences are divided between a central governing authority and constituent political units (such as regions, states, provinces, lands).

**Local government** – local government is a form of government which exists as the lowest tier of administration within a given state. Upper levels of government are central and regional governments.

**Local needs** - demand for local public goods by residents of a particular municipality (locality).

**Local preferences** - means what kind of public goods and services are preferred by residents of a particular municipality (area, locality).

**Local public goods** - public goods whose benefits are limited to a particular area. Traffic lights, public libraries, schools, hospitals are examples of local public goods.

**Okrug** – okrug is territorial unity which includes several districts. Ust-Orda Buryat autonomous okrug (which includes several districts) is part of Irkutskaya oblast (Russia).

**Public good** – pure public good is a good which is both non-excludable and non-rivalrous (individuals cannot be effectively excluded from use). There

are non-pure public goods which are goods provided publicly for some reasons.

**Spillovers** - the actions of one community may have effects on other communities. If a community A constructs a smelly sewage plant in a location such that the winds blow the bad odors over the neighboring communities, there are spillovers. In this case, there are negative spillovers since other communities are suffering from the action of community A. There positive spillovers. For example, community A builds high way road, other communities benefit from the action of community A (since they can use that road).



## **Appendix 2. Interview questions**

### **Interview questions for the local government officials (who is responsible for the questions of education)**

1. How education as a social sphere is organized in the municipality?
2. What role does play the local government in provision of education?
3. What powers and competences does the local government have to provide educational services to residents of municipality?
4. What resources, including financial, does local government have for provision of educational services?
5. How does the local government respond to the local needs in the organization of education in the municipality?
6. What do you think what should be done to improve educational services in the district?
7. Do you think that the local government would perform more fully if it has more resources, competences, powers?

### **Interview questions for the Main Doctor and the local government official (who is responsible for the questions of health care)**

1. How health care system is organized in the municipality?
2. What are the conditions of public health now?

3. What role does the local government play in provision of health care services?
4. Does the local government provide financial and other resources for provision of health care services to the residents of the district?
5. Does the local government respond to the local needs for health services?
6. Do you think that the local government uses all possibilities to support health care system in the District?
7. What do you think should be done to improve health care services in the district?
8. Do you think that the local government would perform fully if it has more resources and powers?

### **Interview questions for residents**

1. Would you like to move to other place of living (to other municipality) in the coming future?
2. Are you satisfied by the quality of education (for your children) at the place of your current living (at your municipality)?
3. Do you think that your children would get better education if they attend other school at other place?
4. Are you satisfied by the quality of health services in your municipality?
5. Do you think that the quality of health services is better at other place?
6. Can you afford of buying apartment or house in more attractive (better schools, better, health services) for you place, for example, in the city of Irkutsk?

7. Can you afford renting apartment or house in more attractive for you place, for example, in the city of Irkutsk?

8. Is life in the city stressful for you?

9. Is communication and keeping close relationships with extended family and friends important and valuable for you?

### Appendix 3.

#### Questionnaire

1. Age

2. Education

Not completed high school	High school	Not completed university degree	University degree
1	2	3	4

3. Would you like to move to other place of living (to other municipality) in the coming future?

No	Almost no	I don't know	Almost yes	Yes
1	2	3	4	5

4. Are you satisfied by the quality of education (for your children) at the place of your current living (at your municipality)?

No	Almost no	I don't know	Almost yes	Yes
1	2	3	4	5

5. Do you think that your children would get better education if they attend other school at other place?

No	Almost no	I don't know	Almost yes	Yes
1	2	3	4	5

6. Are you satisfied by the quality of health services in your municipality?

No	Almost no	I don't know	Almost yes	Yes
1	2	3	4	5

7. Do you think that the quality of health services is better at other place?

No	Almost no	I don't know	Almost yes	Yes
1	2	3	4	5

8. Can you afford of buying apartment or house in more attractive (better schools, better, health services) for you place, for example, in the city of Irkutsk?

No	Almost no	I don't know	Almost yes	Yes
1	2	3	4	5

9. Can you afford renting apartment or house in more attractive for you place, for example, in the city of Irkutsk?

No	Almost no	I don't know	Almost yes	Yes
1	2	3	4	5

10. Is life in the city stressful for you?

No	Almost no	I don't know	Almost yes	Yes
1	2	3	4	5

11. Is communication and keeping close relationships with extended family and friends important and valuable for you?

No	Almost no	I don't know	Almost yes	Yes
1	2	3	4	5

#### **Appendix 4. Competences of the local government of Bayandai District**

Competences of Bayandai District include:

- 1) formation, approval, implementation of the budget of the municipal district, supervision of the implementation of the budget;
- 2) establishment, modification and cancellation of local taxes and duties;
- 3) Possession, use and disposal of the property under the ownership of the municipal district;
- 4) organization within the municipal area of electricity and gas supply within the powers established by the legislation of the Russian Federation;
- 5) maintenance of local roads, control over the safety of local roads;
- 6) creation of conditions for the provision of transport services to the public and organization of transport services between the settlements within the boundaries municipal district;
- 7) participation in the prevention of terrorism and extremism, as well as minimization and (or) the elimination of the consequences of terrorism and extremism in the municipal area;
- 8) participation in the prevention and elimination of emergency situations municipal district;
- 9) organization of protection of public order in the territory of the municipal district by municipal police;
- 10) organization of activities of environmental protection;
- 11) organization of free primary (*nachalnoe obrazovanie*), secondary (complete) general education (*obshee srednee obrazovanie*) in accordance to basic education programs, except of powers of financial support of the

educational process (which is in competence of subjects of the Russian Federation), the organization of provision of additional education to children, and organization of free public pre-school education in the municipal area, as well as the organization of leisure activities for children during the holidays;

12) the organization of the provision in the municipal area primary health care as an outpatient, inpatient, and hospital settings, emergency medical services (with the exception of sanitary aviation), health care for women during pregnancy, during and after childbirth;

13) organization of recovery and recycling of municipal and industrial waste;

14) approval of the schemes of territorial planning of the municipal area;

15) the issuance of permits for the installation of advertising structures in the municipal area, the revocation of such permits, issuing orders to dismantle unauthorized re-established advertising structures in the municipal area, carried out in accordance with the Federal Law of March 13, 2006 № 38- FZ "On Advertising";

16) formation and maintenance of municipal archives, including archival settlement funds;

17) creation of conditions for settlements within the municipal district for delivering telecommunication services, catering, trade and consumer services;

18) organization of library services to the public district library, acquisition and preservation of library collections;

- 19) creation of conditions in settlements within the municipal district for leisure services and services of cultural organizations;
- 20) creation of conditions for the development of local traditional folk art in the settlements within the municipal area;
- 21) equalization of fiscal capacity of settlements within the municipal area from the budget of the municipal district;
- 22) organization and implementation of civil defense and protection of the population and territory of the municipal district in emergency situations of natural and man-made disasters;
- 23) creation, development and maintenance of therapeutic areas and local resorts in the municipal area, as well as the implementation of municipal control of the use and protection of areas of local importance;
- 24) implementation of measures to ensure the safety of people on the water bodies, protection of life and health;
- 26) creation of conditions for the development of agricultural production in the settlements, the expansion of the market for agricultural products, raw materials and food, the promotion of small and medium enterprises;
- 27) provision of conditions for the development in the municipal area of physical culture and sport, the organization of the official health and fitness and sports activities of the municipal district;
- 28) organization and implementation of intra-settlement work with children and young people;
- 29) implementation, within the limits set by the water legislation of the Russian Federation, the powers of an owner of water bodies, the



establishment of rules for the use public water bodies for personal and domestic needs, including the provision free access of citizens to public water bodies and the coastal strip;

30) implementation of the municipal forest control;

32) implementation of municipal control in the special economic zone;

33) implementation of anti-corruption measures within the municipal area.