Federal Grants as a Political Instrument in the Russian Federation

ABSTRACT

The grant system in Russia does not provide sustainable economic growth for regions and makes them dependent on the state. Moreover, this dependence may have political implications. The object of this study is to evaluate how the voting results of the regions affect the federal grants received by them. We use the log-linear regression model on a panel data collected for all 89 regions and the period from 2003 to 2020, taking into account some regional characteristics such as: a) whether a senator was chosen by a President; b) the poverty level; c) the population number; d) the percentage of a rural population and c) the average income. Eventually, we expect a positive correlation between grant amounts and election results. These findings would become additional arguments for considering a more democratic structure of grant allocation that can fit into the concepts of federalism.

Literature Review

The research of the topic covers the description of the grant allocation system, its impact on the economical and political situation of regions, some statistics on the subsidy recipients and voting, and empirical studies. The body of the literature review is structured such that first, we look at a Russian context with the help of theoretical studies and then focus on the empirical part that includes the experience of other countries.

Grants in Russia. The current situation is that the grant allocation system in Russia is analyzed in studies theoretically only. The majority of them are prone to criticize the existing system and give possible ways for improvement. Some compared statistics of grant amounts for every region and their economical indices (Khanova and Khozyainov, 2020; Aksentiev, 2020). They hypothesized that excessive provision of financial assistance may become a disincentive for the development of the region due to the addiction and dependence of regional budgets on subsidies. Additionally, the main problem highlighted was that subsidies occupy a large share in the structure of budget revenues. Their findings suggested that subsidized regions are not self-sufficient, but dependent on the state.

Moreover, there are articles analyzing the Russian taxation system as a whole. Suleymanov (2013); Kolodina (2019); Pinskaya (2009) posited this system is focused mainly on the redistribution of federal regulatory taxes that only increases the number of subsidized regions. The authors claim that the taxation system with grants allocation does not fit in federal principles and cannot provide a long-term budgetary balance and independence.

The evidence of the grants playing a role of a nation's leverage can be found in the following works. In her study, Zubarevich (2017) emphasized geopolitical regional policy as one of the priorities in Russian investment decision-making. That observation is worthy of attention since, officially, grants are supposed to only equalize the budgetary security of the regions (Budget Code of the Russian Federation [BC RF] dated July 31, 1998, No. 145-FZ Article 131. Subsidies to budgets of districts of the Russian Federation from the federal budget). And certainly, these transfers should not respond to the political needs of politicians. All the methodology "for alignment" allocations is strict and formally given with formulas (Decree of the Government of the Russian Federation of November 22, 2004 N 670 (as amended on December 29, 2022) "On the distribution of subsidies for equalizing the budgetary security of the

constituent entities of the Russian Federation"). However, a part of the grant "for balancing" is given after the alignment and is less formalized. The problem is, that it is not always accessible which criteria are used for the assessment of regional needs and the grant amount determination (Mamedov et al., 2012). Therefore, the subsidy amount can be chosen in favor of the people who decide it.

The other studies explore regional voting. It is a fact that the most subsidized districts are national republics (Zubarevich, 2017; Khanova and Khozyainov, 2020). And 11 out of 21 such regions show a consistently high turnout and the percentage of votes for the majority party (Panov, 2019). Shkel et al. (2022) investigated political loyalty to the ruling party of several national republics using quantitative and qualitative methods. They claimed that despite the fact that the main party in modern Russia is not an ethnic one, such republics provide "Edinaya Rossiya" and other federal incumbents with higher electoral support than other Russian regions. They concluded that these regions are prone to be more rural and have relatively denser social networks in ethnic villages. It could mean that these characteristics are a highly valued resource used by political machines for electoral mobilization (Panov, 2019).

As a result, there are articles in Russia devoted to the critique of the existing grant allocation and taxation systems that emphasize the problem of the high dependence of certain regions on a state and the non-transparent procedure of subsidy allocation. Furthermore, another common finding is the high political resources and partisan loyalty of the same regions. This leads to the question of whether votes for particular parties of districts in Russia determine federal grants received by them.

Worldwide models. Contrary to the studies done on the Russian context, the world's ones can provide more empirical methods. In this part, we are going to explore different studies of federal countries like the United States of America and Argentina that used the regression models to reveal the significance of the grants' political determinants.

Grossman (1994) observed the political interests of grant-giving donor government and built a model for vote-maximizing politicians making decision about a grant amount. It is based on the concepts that grants given today impact on a state's votes tomorrow if a politician wants to be re-elected and voters positively respond to increased expenditures on public goods, a state and political capital. Then, the model is implemented on the real data. At the end, it is concluded that the state union and the size of the state bureaucracy positively impact on the size of a grant.

Moreover, the similarity in party affiliations between federal and state politicians, and the Democratic majority size in the state legislature raise the grants given to the state.

Hankins et al. (2019) in their work focused on partisan characteristics that determine the amounts of per-capita highway funding. The model consisted of the state's associated party and political alignment variables. They revealed that state's Republican delegations, other things being equal, receive more highway funds compared to Democratic ones. However, this effect diminishes as a state becomes more urban. In addition, Christenson et al. (2017) highlighted that not only does party matter in grant allocation, but also senators being at the same party as a president influence on that amount. He claimed that the federal resources are distributed under the influence of the White House in order to help their political allies in Congress.

The authors from Argentina, Porto and Sanguinetti (2001), used an econometric approach of cross-section time-series sample data for the 22 Argentine provinces in 4 years testing the political determinants such as an income per-capita, density, population share, the number of senators from every state per-capita, the number of deputies from every state per-capita, if the province is developed or not, and so on. They believed that decisions about the distribution of grants are made by National Congress, therefore the percentage of every state representatives matters. And it was discovered that provinces with higher representation at the senate and the lower chamber on average have received more resources from the national government than less represented states. The results correlate with American findings of Holcombe and Zardkoohi (1981) with a similar model. The case of the former country is significant for our study in a way that, like Russia, Argentina is a developing country with similar political conditions as well.

Most of the studies find urbanization of a region, the comparative number of representatives on a federal level, partisan similarities with a majority in a senate or a president, and other political variables are significant in determining the amount of grants for each region. As a result, they all have concluded that the political characteristics of a region matter in the subsidy allocation process.

Despite the fact, the articles did reveal the disadvantages of the Russian grant-giving system, similar quantitative research that would link the political incentives and subsidy amounts for the Russian Federation still does not exist. Therefore, our study aims to fill this gap in the following ways. Firstly, we introduce similar to the mentioned models in the Russian data, including an analysis of this specific case.

Secondly, we use voting results as a political capital measure due to the specific political system of regionalism in Russia.

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