

# TOPICAL ISSUE

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*At the end of February of the current year the following edition was published: 'The problems of government management efficiency. Budget crisis in the regions: monograph. Ilyin V.A., Povarova A.I. Vologda: ISEDT RAS, 2013. 128 p.'*

*As it goes, the book manuscript has been subjected to review by national economic scientists S.D. Valentey, V.S. Selin and A.P. Dorogovtsev, well-known in the scientific community. Recognizing the importance of their estimates, the editorial board of the journal decided to publish the basic content of the reviews.*

**S.D. Valentey**

**Doctor of Economics, Professor, Head of the Federative Relations Research Centre  
of the Institute of Economics RAS**

The present study ranks among the works rare in the Russian scientific literature, in which the authors professionally analyze the situation in one of the strategic sectors of the Russian economy.

Poor interest in the metallurgy situation stems from several reasons. One of them, perhaps, is that the problems related to this segment of the Russian economy are 'overshadowed' by the achievements (failures) in extractive industries. As a result, the scientific community has a vague idea about the processes taking place in the field, therefore, about the factors limiting innovation modernization and caused by the processes.

The analysis of the regional profile of metallurgical development is one more notable positive aspect of the research, which is of a special interest, as the work demonstrates that the possibility of reducing deductions from metallurgical companies' profits to the budgets of constituent entities of the Russian Federation indicates their factual role of colonial institutions, exploiting the resources of the whole group of Russian regions.

Among other things, the current situation leads to the fact that '...the current income tax in 2008 – 2011 is to be estimated at 38.8 billion rubles, i.e. 13.6 billion rubles more than the

current income tax, reported in the financial statements'. As a result, for example, '30% – 80% of the CherMK net profit were allocated to the payment of dividends in 2006 – 2011'. And although 'at the end of 2010 – 2011 the net financial result of the mill was negative ... this did not prevent the Board of Directors from initiating dividend payments in the amount of 22 billion rubles at the expense of retained earnings'.

The transfer of cultural and sports sphere of budget-forming enterprises with own funding sources to regional and municipal budgets negatively affects the development of the regions' economy, as well.

Hence, the logical conclusion can be the following: the threat is posed not by the expansion of the western capital, but by native entrepreneurs, as 'in the country... the state policy in the sphere of capital outflow, or even... the concept of this policy is not formed'.

I conclude my description by noting one more obvious advantage of the research, i.e. the authors are not limited to statements. They attempt to determine the causes of the 'decease', to make specific proposals aimed at overcoming the current situation in the industry. It is important that the researchers do not confine to purely economic aspect of the issue. They

deal with its statutory and regulatory 'section', noting, for example, that 'the discrepancy between the legal conception of income tax base and the economic content of the base in practice leads to various forms of tax evasion and increasing costs incurred by tax authorities, associated with profit tax administration.

Such methodology is crucial, as the development level of the legal framework is either ignored, or assessed amateurishly in an absolute majority of the developments of native economists.

To sum up, this work is extremely urgent, that is reasonable to be widely discussed.

**J**

**V.S. Selin**

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Budgetary instruments in the Russian state policy are applied not systematically enough, and reflect, in general, the status of elites in this or that time period.

Rather frank attempts of the Centre to consolidate all large budget resources in the federal budget, on the one hand, and to pass all expenditure powers on the budgetary entities of the Russian Federation and municipal entities, on the other hand, are characteristic features of the current phase (2005 – 2015). The policy of oligarchy's capital, conditioned by an active foreign financial expansion among other reasons constitutes a separate problem. In these respect, the direction of the research presented in the monograph should be recognized as sufficiently important.

According to the publication, falling profit tax that caused the deficit of the territorial budgets is the main reason of growing debt ratio of the overwhelming majority of the Russian Federation constituent entities. In this situation, the unconditional implementation of the adopted social obligations lacks external sources of finance in the form of commercial bank loans and loans allocated from the federal budget. As early as at the end of 2008, the borrowings of the Russian Federation constituent entities increased almost two times in comparison with the 2007 level, and 4.5 times as compared to the 2011 level.

According to the forecasts of the Ministry of Finance of the Russian Federation, the consolidated regional budgets are to be balanced by the beginning of 2016. In reality, the establishment of deficit-free budget is rather doubtful. Thus, according to estimates, the repayment of loans, received in 2008 – 2011 from the federal budget alone, will require the diversion of own regional sources of revenue in the sum of about 400 billion rubles.

As a result, the real deficit of sub-federal budgets in 2015 will amount to 152 billion rubles, indicating once again that the implementation of the social initiatives of the President of the Russian Federation in full measure is impossible. Meanwhile the federal budget stipulates reduction of inter-budgetary transfers by nearly 200 billion rubles in 2013 – 2015, that is comparable to the real amount of budget deficit of the regions.

One can agree with the authors that the provision of social guarantees has become a serious concern for the Russian society. The difficulties, arising while resolving social issues, are usually attributable to the limited revenues of the state budget. The responsibility for the execution and financing of social obligations is being increasingly shifted to the regional level, without adequate redistribution of revenue sources.

The monograph presents rather detailed analysis of the policies and activities of large metallurgical companies. The results of the analysis for 2011 confirmed the conclusion of ISEDT RAS that the decreasing profitability of the leading Russian ferrous metals corporations, and, consequently, the reduction of their role as the main territorial budgets mobilizers should not be attributed only to the cyclical nature of metallurgical production. In many ways it was the consequence of high level of production costs, as well as of the use of offshore financial schemes by major corporation owners with the purpose of tax mitigation. The Russian government has not made serious practical steps towards the tightening of anti-offshore policy.

Meanwhile, it is the employment of off-shore traders, that causes huge tax arrears and through which a significant part of the Russian export is carried out. According to the data of

the Bank of Russia, for the first half of 2012 alone, net capital outflow grew 1.6 times in comparison with the corresponding period of 2011 and amounted to 43.4 billion rubles. According to the estimates of economists, tracking illegal cross-border capital flow, the real net capital outflow 1.5 times exceeds the statistical one.

In general the work comes as a serious study in the given direction. One of the noted disadvantages of the monograph is that the issues concerning changes in tax legislation and inter-budgetary relations, aimed at stabilization of the financial system of the RF constituent entities, are practically omitted. Nevertheless, it may serve the purpose of an independent research direction, not reducing overall good level of the work.

All in all, the monograph is characterized by solid evidence base, is perfectly logical and can be recommended to publication.

J

**A.P. Dorogovtsev**

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The work under review is devoted to the methodology improvement of the development strategy and tactics of the federal and regional authorities in the sphere of regulation of distribution relations, to the enhancement of the social responsibility of the largest owners and to budgets income growth at all levels. These problems are the result of the reduction in the federal budget expenditures and the increase in the expenditure budgets of the constituent entities in the main directions of the social sphere financing.

The problems of sub-federal budgets have been worsened by the high debt ratio of regions, resulting from profit tax reduction. In this situation, external financing in the form of commercial bank loans and loans from the

federal budget has been required. As early as by the end of 2008, the borrowings of the RF constituent entities increased almost two-fold, as compared to 2007, and 4.5 times in comparison with the level of 2011. According to forecasts of the Ministry of Economic Development of the Russian Federation, the deficit of territorial budgets will grow sevenfold in 2015, as compared to 2012.

Thus, providing social guarantees to the population has become a serious concern for the Russian society. Thereby, the denoted in the reviewed publication topic concerning the budget crisis of the regions in the 2013 – 2015 period and the directions of the crisis abatement is topical both at present and in the near future.

The monograph under review comprises 7 chapters along with introduction and conclusion.

The expected 2013 – 2015 crisis as a threat to Russia's security is examined in the first chapter. The dangerous directions for the country's economy include withdrawal of capital by large exporters using offshore schemes to minimize taxes. The authors summarized the most common schemes, setting forth economic consequences.

The second chapter is devoted to the study of tendencies of the world market in the case of metallurgical companies, reflecting Russia's positions on steel production and consumption and steel prices in comparison with other countries.

The results of the statistical analysis of industrial-financial activities of the metallurgical companies and their parent companies in the 2007 – 2011 period are presented in chapters 3 – 5. It was discovered, that the tendency of decreasing profitability of the leading steel production capacities, primarily due to the activation of the consolidation and acquisition policy in the world markets, which requires significant diversion of the financial resources of the parent companies, has become general for all major Russian ferrous metals holdings in the course of three years (2009 – 2011).

The chapters contain the statistics of metallurgical enterprises on steel and rolled steel production, sales volumes and structure, including export prices. The economic analysis of parent companies' activities is carried out by the following indicators: cost of sales, growth dynamics of prices for raw materials and rolled steel, ore, coal, gross profit and sales profit, selling and administrative expenses, credit indebtedness, financial results, etc.

Of special interest are the materials concerning remuneration payments to the governing bodies, as they are usually left without comment. In 2000 – 2008, the remuneration

payments to the governing bodies of OAO Severstal reduced tax base by 12.7 billion rubles in profit tax.

Chapters 6 and 7 explore the tendencies concerning the relations between metallurgical enterprises and the budget, and the directions of net profit use. The scientifically relevant data on the debt of plants to the Russian Federation budget settlements and the availability of considerable funds for timely budget settlements has been obtained. The amount of funds for capitalization of the enterprises and the fortune of the enterprises' owners, their share in % to GDP and budget revenue have been compared, proclaiming the 'degeneracy' of the country's economic management.

The monograph is concluded with the statement that the decreasing profitability of the leading Russian ferrous metals corporations and their impact on the territorial budgets is not only the result of the high level of production costs, but is largely caused by the application of offshore financial schemes by the owners of the corporations in order to mitigate taxes. The decisions of the enterprises concerning investments in financial assets of mostly low-margin foreign business (CherMK losses made up 8 billion rubles in 2010 – 2011) are doubtful. The monograph substantiates the proposals on VAT payment, dividend payments, the outflow of capital from the country, etc. Based on the conclusions of the work, the authors substantiate suggestions made to the authorities with regard to enhancing contribution of the metallurgical companies to the socio-economic development of Russian regions and Russia as a whole.

When considering the reviewed publication as the results of scientific research, some of the features and characteristics, emphasizing high scientific level of the work are to be highlighted. The monograph is distinguished by high degree of argumentativeness. The theoretical principles, examined in the work, are confirmed by experimental data obtained by the authors.

The techniques used and the conceptual framework are consistent with the works conducted by the RAS, statistical information and electronic resources.

The information base of the study is reliable. Sources of information include the annual reports of the metallurgical plants OAO Severstal, OJSC MMK, OJSC NLMK; consolidated financial statements of metallurgical companies, accounting statements. The authors used data of the Federal Tax Service, Federal State Statistics Service, and Federal Treasury. Thus, the study is based on a significant amount of

factual material. Time base for the economic analysis covers the period of 2000 – 2011.

The work is notable for scientific novelty, as the issues concerning the budget crisis of regions have not yet been studied as a result of the conflict of interests between major owners and the majority of the population living in the regions. The results of the studies, presented in the work are of practical importance, as they are concluded with specific recommendations to the government of the country and the regions with regard to the management of the real sector of economy.