

INEFFICIENT SOCIAL EXPENDITURES IN THE CONTEXT OF SPATIAL POLICY¹

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Nowadays, the issue of inefficient social expenditures is not just a local item of social policy, rather it comes as far as the macroeconomic level, being considered in discussions about sources of financing of the national long-term development strategy.

Let's investigate into what it is all about. In general, three types of inefficient expenditures can be distinguished in analyzing social expenditures (the definitions are, of course, quite conventional).

First, these are *politically determined inefficient expenditures*. The expert community is unanimous about supporting the poor rather than such categories as prosecutors, military, etc. It is quite obvious, however, that from the political point of view it is very difficult to give up categorical aid. Moreover, it is difficult to give up both such aid and its indexing. Therefore, although we realize inefficiency of these expenditures, we have to live with it.

Second, these are *administrative costs*. These are most counteracted inefficient costs which are determined by wrong incentives. They can be overcome by making efficient organizations gain from their effectiveness and inefficient ones lose from their ineffectiveness. All measures related to engaging the non-government sector, conversion into autonomous institutions, per capita financing, etc. can be used for this purpose. Indeed, the foregoing may help cope, to a certain extent, with ineffectiveness, but we should have a clear picture of localization of territories where these mechanisms operate, namely, above all, big towns, cities, urban conglomerates where one may expect to see a real effect of using this type of mechanisms.

Can we be sure, however, that we will be able to somehow reallocate resources saved on the reduction of inefficient expenditures for other purposes? It is cities that constitute economic growth centers in the modern context. However, our urban environment is quite noncompetitive, and even those resources which can be mobilized by reducing inefficient social expenditures would be insufficient to enhance its competitiveness. This will require legalization of retail co-payments which in certain social sectors are comparable in volumes to budget financing, and search for other forms. However, cities and urban conglomerates can hardly be considered as territories to be saved on.

The third source of inefficient expenditures can be seen as soon as we are out of big towns, i.e., on the periphery, where people live in small settlements and villages with low transport accessibility and inefficient regional settlement system which is also degrading, because of degrading human capital. Furthermore, we can see heavy outflow of migrants and archaic styles of space development forms. The issue of inefficient expenditures looks differently under the circumstances, because the incentives provided for by our reforms in this sector cease to work, giving way to quite different incentives.

This is not to say that the national policy completely ignores this issue. Put it in a nutshell, I'll describe, for example, the attempts which were made to address the issue in the case of general education. Early in the 2000s, a proposal was made as part of the Education Restructuring Concept to retain the secondary school in each village and transport mid-grade and especially senior pupils to a bigger, more advanced primary schools. This way was suggested to resolve the issue of enhancing effectiveness. Such a model did work one way or the other on territories with adequate transport accessibility. However, here come 'buts'. Ok, villages retain their primary school. Where? In the two-storey building of an old secondary school, with a capacity of 500 persons? There is nothing to benefit from. Should there be a need to rebuild, reconstruct the old building or build up a new one, it would require extra costs. Another issue is transportation of children. How many children can be transported? Six – eight. What about a school with a capacity of 25, 50 persons? More than one school buses and bus drivers and vehicles in good repair would be needed. How much extra costs would be required? Under such circumstances, schools with 10 teachers and 25 pupils are likely to have to be retained at areas with good transport accessibility.

However, this country has lots of other territories which have no transport accessibility, in which case we can either move our children to a boarding school (I'm not going to discuss here the related value premises of social issues, but it would also require construction of boarding schools and extra financing), or retain schools at such areas, no matter how inefficient they may be. The building of such half empty school also can admit the local administration, and the community center, and some public entities. Anyway, it would require extra costs, because more than one entrances should be available in the building, etc. And the inefficient expenditures restructuring potential as part of traditional approaches is virtually exhausted off here. One can see here very strict structural constraints of the reduction of inefficient expenditures.

However, the state policy interferes heavily with enhancement of the effectiveness wherever it can be possible within this framework. First, it is the departmental system of management – its total domination – that interferes with. Suppose that all budget-funded entities were put in a single building. Thereupon, it would be a good thing to enlarge as much as possible the departments in order to somehow optimize the use of floor spaces, human resources, and ease interdepartmental conflicts. However, one can hardly establish a combined educational and cultural center in our system where education and culture pertain to different departments.

There is nothing to gain within this system from combining libraries and community centers, because there is a special subsidy for updating municipal libraries' files. This federal subsidy will cease to be paid as soon as an entity ceases to be classified as municipal library. There is a special subsidy to repair wood house schools in disrepair. Therefore, it is wood house schools that are repaired, rather than schools which have potential for increase in the number of pupils. They still repair old buildings when it is cheaper to construct new ones, because costs are covered with federal resources. In this

context, lack of any space management policy may weaken seriously the saving potential by reducing inefficient social expenditures.

What can be done under the circumstances? There are four options available.

First option – do nothing. However, we should realize that in 5-7 years, maximum 10 years social services on these territories will almost cease to be provided, because of gradual ageing of the generation of their providers. Indeed, even today these budget-funded entities are not basically intended to provide services. Of course, they do provide services one way or the other, but only as by-product of maintaining employment and major social benefits. For example, teachers have low salary in rural areas, whereas central heating benefits in northern regions may be comparable to such salary. The teacher may work halftime and be fully entitled to central heating benefits, like the rest of benefits. Once again we refer to politically determined inefficient expenditures. This option will not result in a special effectiveness, because both the regional settlement system and social medium are degrading. Neither would it require high extra costs. Furthermore, very few services would be available.

Second option – make attempts to infuse new blood into and enrich the system with those who are able to provide social services. We tried to estimate costs required for engaging young specialists to rural areas in some regions. On a conservative estimate, salary should be increased 2–3 times and accommodation required. Extra costs are obvious in this case.

Third option – try to switch to other type of service provision which is not directly related to the budget institution network. It refers to remote services, mobile services, etc. Can we save on it? It is hardly possible, indeed. For example, let's take a look at heavily advertised informatization which allows remote services to be provided at ungraded schools, in which case the building of a ungraded school is retained so that the pupils have a place to study. A certain number of teachers (renamed as tutors) are retained as well to keep an eye on the pupils and making them focus on remote lessons. Extra costs are required for equipment, technical assistants (who, by the way, can't be found on the periphery) to keep this equipment in working order, fast Internet and raise in salary of those teachers who teach remote lessons at advanced principal schools. There is nothing here to save on?

Finally, fourth option, the last one of those available; I shall enlarge upon this one, as it seems to be important. It refers to a strategy of incentives for habitable space curtailment. Had a governor been right here, I think I might have been torn apart instantly, because the idea is extremely unpopular.

Two types of regional policy towards inhabitable space can be distinguished in practice.

First type – when the issue of curtailment of the inhabitable space is not considered at all, because preservation of villages is considered a social value. Shutting down schools will kill villages. Therefore, schools and the rest of social network should be kept at whatever the cost.

Second type – after the regions burnt themselves on their attempts to resolve the issue, they don't want even to hear about it anymore. Attempts to move entire villages resulted in a set of all possible problems, from increased prices of land and housing in surrounding territories to unrest and refusal to move. Finally, settlements wouldn't close, which for some reason was considered a failure of the policy. In fact, it was not complete failure, because services in such settlements were provided in any case – schools, etc. are shut down there. A few families may stay if they want to, but they live on a self sufficiency basis.

Perhaps, the main lesson drawn from the space optimization attempts must be different. A very clearly defined deliberate policy is needed here instead of a stop-and-go one. The point is that people's decision where they should live is determined by two groups of factors, namely *push factor* and *pull factor* as defined in scientific literature. Therefore, the policy should be tuned up so that it can strengthen push factors from where there is no economic prospects and strengthen pull factors towards where such prospects are available.

What is going on with push factors? If, for example, a settlement has a diesel power plant and electric power tariff is Rb 27/kWh, those who live in the settlement pay Rb 1,30, according to the respective tariff policy. No consideration is given to the specifics of such

autonomous systems. People migrate to this settlement. It is an excellent place to live, located not far from the regional center. The regional budget compensates each person for the difference between Rb 27 and Rb 1,30. No doubt, such practice should be changed. At the same time, move-out of those families whose costs are very high on the territory should be supported. Should there be 10 families with children, it might be more expedient to shut down the school and finance their move out so that the children can go to school in other place.

Perhaps, there are other instruments available which could help optimize such a situation.

It should be realized, however, that today this practice is neither being in use nor considered in such terms, i.e., space management terms. The issue is being discussed exclusively in the sectoral context. Reduce inefficient costs in education, healthcare, etc. Take for example the aforementioned informatization – it is obvious that it can be made sectoral. Remote services must be provided in education, healthcare, and other sectors. However, our system is not designed for such ways of social expenditures optimization. This is why I'd like to make two very short conclusions.

First, there is no special potential available for reducing social expenditures and saving in this field. At the macro level, there are other sectors where sources and reserves for saving could be found, e.g., security, defense and law enforcement sectors. It would be more reasonable.

Second, to be able to really reduce inefficient expenditures, we must very seriously, strategically change the management system and supplement the sectoral management with a spatial development management. Otherwise, the quality of service would be deteriorating and costs increasing on peripheral territories. And, in my opinion, it would finally have a direct impact on the macroeconomic policy.