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Budget Capacity in the System of Capacities of the Territory: Theoretical Issues



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Abstract. The paper considers theoretical and methodological aspects of budget capacity. Our goal is to determine the place and role of budget capacity in the system of capacities of the territory by studying the essence of this capacity. We define the concept of “capacity” and summarize the content of key elements of the system of territorial capacities. We analyze the evolution and modern interpretation of the term “budget capacity of the territory” on the basis of domestic and foreign works. We find out that so far there is no unique approach to the content of budget capacity in either domestic or foreign financial science. Scientific novelty of the paper is shown in the following: we carry out systematization and critical analysis of existing methodological approaches to the definition of budget capacity, consider the conceptual content of six main and optional approaches, and identify five key issues of the budget capacity methodology. First, many scientists, as well as Russian legislation, are investigating the problems of tax capacity alone. Second, there is no single point of view on the very essence of the term “budget capacity”. Third, we observe substitution of the concepts of “capacity”, “resource”, “reserves”, “opportunities”, and “achieved level of development”. Fourth, there is no common understanding of the target setting of the term “budget capacity”. Fifth, various stages of formation of budget capacity are discussed. The paper puts forward our own vision of possible ways to solve the debatable issues. We clarify the interpretation of the term “budget capacity”, which unlike the existing ones actualizes the main elements necessary for the disclosure of the content of this economic category, such as target, relationship with the sustainable development of the territory, constituting factors, and carriers. In the next stages of the study, we plan to consider the structural component of budget capacity of the territory and methods of its evaluation. The materials of the paper can be used by researchers as a basis for further research and by management

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bodies in making management decisions, as well as in the educational sphere in bachelor's, master's, and postgraduate programs.

Key words: capacity, resources, reserves, system elements, methodological approaches, socio-economic development, budget capacity, theory of finance, methodology, budget.

Introduction

The acceleration of economic growth as a factor in improving the quality of life is one of Russia's main priorities of modernity. In this case the spatial aspect of this goal, associated with the formation of conditions for sustainable development of territories, is particularly important. Academician D. Nekipelov points out that economic development should be promoted by restructuring all the mechanisms of its functioning at different levels [1].

It is quite obvious that the country's spatial system cannot develop steadily and effectively on the basis of a weak territorial base for a long time. An increasing importance of the role of territories in the national economic complex of the country, the growth of regional independence, increased responsibility of territorial authorities for the results of decisions taken in the field of socio-economic development – all these processes happening in Russia make regional studies more and more relevant in the context of modernization of socio-economic systems.

It is no coincidence that the world practice pays more attention to an economic approach that assumes that the state creates prerequisites for intensive development of various territories, taking into account their internal potential and the possibility of its growth. At the same time, two important, but, in essence, opposite state tasks come to the fore at once. The first task concerns the need to preserve the engines of growth and rely on strong regions and municipalities. The second task is to reduce deep inter-territorial disparities.

The relevance of addressing these issues for modern Russia can not be overestimated due to the uneven distribution of economic activity in the country. Regional differentiation by the key indicator of socio-economic development – gross product per capita – reached 34 times in 2017, which is several times higher than in developed countries. Thus, according to Eurostat data for 2016, the difference between the territories with the minimum and maximum values of GRP per capita was 2.8 times in Germany, 2.5 times in Canada, 5 times in the U.S., and 7 times in China. Due to spatial heterogeneity, more than half of tax and non-tax revenues of consolidated budgets of constituent entities of the Russian Federation are mobilized in 1/8 of the country's territory (*Tab. 1*), despite the fact that only one third of Russia's population lives there.

The data in the Table clearly show that Russia has no effective organizational and economic mechanisms that would help not only level the territories to eliminate consequences, but also develop their potential.

These circumstances make it necessary to search for ways to use and develop effectively the potential inherent in the Russian territories. Today, this issue is being actively discussed at the highest state level. However, the solution to this problem is not possible in the absence of methodological and scientific basis and active regional policy on the development of potential. Real forms and methods of implementation of management decisions largely depend on the reasonableness and correctness of the use of the conceptual framework.

Table 1. Tax and non-tax revenues of consolidated budgets of RF subjects and consolidated budget revenues of the Russian Federation

| RF subject | 2000 | | 2010 | | 2015 | | 2017 | |
|---|----------------|----------|----------------|----------|----------------|----------|----------------|----------|
| | Billion rubles | Share, % |
| Russian regions with the highest revenues of consolidated budgets | 428 | 53,2 | 2590 | 52,0 | 4056 | 53,2 | 4819 | 53,6 |
| On the whole in Russia | 804 | 100,0 | 4980 | 100,0 | 7625 | 100,0 | 8987 | 100,0 |
| Interregional variation in GRP per capita, times | 26,5 | | 20,3 | | 29,5 | | 34,4 | |

Source: calculated with the use of the data from the reports of the Federal Treasury of Russia, and Rosstat data [2].

Research methodology

The solution to this problem is based on scientific works of domestic and foreign researchers on territorial development theory and methodology.

If we refer to the dictionary [3], we see that the term “potential” is interpreted as all available opportunities or means in some sphere or area, or as a degree of power (military, intellectual potential, etc.). Note that the widespread use of the term has become characteristic of the economic science of the USSR since the late 1960s. This was due, on the one hand, to the awareness of the exhaustion of resources for extensive economic growth, and on the other hand – with the desire to put into effect the reserves that are inherent but not yet implemented in practice.

In the Soviet economic literature, the term “potential” included production factors (natural and climatic resources, fixed assets, labor resources) in their quantitative and qualitative assessment. In a planned economy, the task of connecting them was considered in general only as an organizational one. But already in the 1970s, it became clear that natural resources, labor and material wealth alone are not able to reflect the full range of economic development opportunities. It required a systematic approach that takes into account such an important driver of socio-economic development as the quality of the system itself [4].

In the perestroika and post-perestroika periods, the well-known Russian scientist V.G. Lebedev studied potential [5]. He suggested that potential should be considered from the standpoint of development of productive forces, scientific and technological revolution, transformation of social relations of production, and realization of the benefits of planned development.

In modern studies [6], the potential of any economic system is defined as a set of available resources (labor, natural, physical, etc.), which provide a certain level of its development in the current and future regime within the framework of the accumulated level of knowledge and technological system, depending on the existing social institutions. From this perspective, implementation of potential is represented as an additional source of resources.

In most cases, researchers understand the potential of territories as socio-economic potential. This is due to a close relationship between social relations and the process of formation and use of economic benefits. The value of socio-economic potential and its dynamics are determined by the current structure of the economy and the state of its individual subsystems. As a consequence, socio-economic potential has structural aspects. Undoubtedly, all its elements change over time, and the crisis of an economic system, expressed in the reduction of output product and per capita income, reduces the

possibility of using the country's potential, not to mention its increase.

Place and role of budget capacity in the structure of socio-economic potential of the territory

Scientific literature contains different views on the structural composition of the system of potentials of territories. In order

to understand its content more comprehensively, it is necessary to systematize the key elements (*Tab. 2*).

Having organized the whole variety of elements of the system of territorial potentials of the territory identified by different authors, we reveal the complexity and diversity of the definition under consideration. In turn,

Table 2. Characteristics of the content of the key elements of the system of potentials of a territory

| Element | Characteristic | Authors |
|----------------------------------|---|---|
| Production potential | Total result of economic activity of all the structural components of the production complex | O.F. Balatskii E.V. Lapin V.L. Akulenko A.E. Kogut V.E. Rokhchin I.O. Kalinikova |
| Labor potential | Characterizes the measure and quality of aggregate abilities to perform socially useful activity, which determine the ability of the working population to participate in labor activity | I.S. Maslova G.V. Leonidova E.A. Chekmareva P.M. Sovetov |
| Natural resources potential | Characterizes development opportunities of the region due to the rational use of its land, mineral, forest, water, recreational and other resources (determined by the quantity and quality of resources, conditions of their production, transportation, etc.) | A.A. Shalmuev A.O. Polynev A.E. Kogut V.E. Rokhchin O.F. Balatskii E.V. Lapin V.L. Akulenko |
| Financial capacity | The maximum possible amount of financial resources, hypothetically available for mobilization by all economic entities of a territory | L.N. Lykova A.E. Kogut V.E. Rokhchin O.S. Kirillova N.M. Sabitova A.L. Kolomniets A.I. Novikova K.M. Men'kova M.A. Repchenko O.M. Fokina |
| Investment potential | Characterizes the opportunities to raise and use the funds of domestic and foreign investors, entrepreneurs, and residents in order to address territorial issues | V.Yu. Katasonov G.S. Poltavchenko A.A. Miroedov O.F. Balatskii E.V. Lapin V.L. Akulenko A.A. Shalmuev |
| Science and innovation potential | Characterizes the opportunities for improving the competitiveness of products, works and services based on the rational use of scientific and technological achievements | O.F. Balatskii E.V. Lapin V.L. Akulenko K.A. Gulin A.E. Kogut V.E. Rokhchin |
| Demographic potential | Characterizes the opportunities to improve the quality of the population in the territory (determined by the total population, its age and sex composition, the dynamics of population growth/decline, migration processes, etc.) | A.E. Kogut V.E. Rokhchin A.A. Shalmuev |

End of Table 2

| Element | Characteristic | Authors |
|--|--|--|
| Intellectual potential | Conditions, opportunities for and results of innovation activities created in the territory | G.V. Leonidova O.V. Loseva O.F. Balatskii E.V. Lapin V.L. Akulenko K.V. Suslov N.Ya. Kalyuzhnova |
| Social and infrastructural potential | Characterizes the territory's capabilities in the field of improving medical, household, cultural, transport, and housing and utilities services by expanding the range and improving the quality of services, ensuring their accessibility to people | A.E. Kogut V.E. Rokhchin O.G. Dmitrieva A.A. Shalmuev T.V. Uskova |
| Information potential | Combined opportunities and conditions to enhance and use information resources effectively | I.O. Kalinikova S.A. Korsukova |
| Territorial and geographical potential | Characterizes possible reserves of territorial development by using effectively its transport and geographical location, climatic and landscape conditions, placing new or expanding existing production facilities | A.E. Kogut V.E. Rokhchin A.A. Shalmuev |
| Budget capacity | Characterizes the territory's ability to increase the revenue side of the budget (determined by the amount of taxes and fees, tax deductions, as well as revenues from the privatization of property, its lease, foreign economic activity, the volume of transfers, etc.) | A.A. Shalmuev C.B. Zenchenko T.P. Nikolaeva Zh.A. Mingaleva N.P. Pazdnikova T.Yu. Tkacheva Zh.G. Golodova S.N. Yashin N.I. Yashina |
| Export and import potential | The set of resources necessary for the organization and implementation of foreign economic activity, the presence of a management system that ensures the functioning of the foreign economic component of a particular region and a sufficient level of capacity development | A.A. Shalmuev A.A. Annenkova E.K. Samsonova O.A. Fedorova |
| Organizational potential | Methods and techniques to ensure consistency of actions in achieving the goal of development of the territory (information technology, management style and methods, choice of development options, planning and forecasting, etc.) | I.O. Kalinikova A.A. Tatuev A.S. Borovik |
| Agricultural potential | Aggregate capabilities of localized economic entities for the production of agricultural products and for obtaining gross income as the main source of expanded reproduction of resources involved in agricultural production | T.V. Savchenko Yu.A. Prosyannikova I.O. Kalinikova A.G. Burda L.N. Titova N.V. Deshevova S.A. Shanin |
| Facilities and equipment potential | Characterizes development opportunities of the territory on the basis of effective use of all structural components of its production complex (determined by the structure and volume of production, the size and efficiency of the use of production assets, the state of infrastructure development, etc.) | A.A. Shalmuev K.O. Vinogradova O.A. Lomovtseva |
| Recreation potential | A set of natural, cultural, historical and socio-economic prerequisites for the organization of recreational activities in a certain territory | I.O. Kalinikova T.V. Nikolaenko I.V. Zorin V.A. Kvaral'nov V.M. Razumovskii |

Sources: our own compilation with the use of [7–33].

this fact prompted the researchers to form a classification of potentials on various grounds. For instance, A.A. Shalmuev [11] allocates three sets of potentials:

1. Resource (basic) potentials of the territory, which include natural resource, economic-geographical, and demographic potentials.

2. Potentials promoting realization of basic resource potentials among which are labor, material and technological, scientific and innovative, budgetary, social and infrastructure, export and import, and investment potentials.

3. Potentials that show readiness of the region to socio-economic transformations: socio-psychological readiness of the population and power structures to carry out transformations, normative-legal and scientific-methodological readiness.

Scientists [27] also divide the system of development potentials of the region into resource potentials and providing potentials, but at the same time they allocate the so-called development potentials from the previous sets in a separate block (*Tab. 3*).

Budget capacity, being a providing potential and an integral part of the financial and economic set, occupies one of key places in the structure of the system of potentials of the territory. This is due to the significant fact that the budget is an incomparable monetary fund with a huge investment potential. Through the budget, the state forms centralized funds and influences the formation of decentralized

funds, providing the ability to perform the functions assigned to government authorities. The way in which budget capacity will be used will determine the direction of development and will influence the stability of regional economy. M.Yu. Golovnin, L.N. Lykova, and I.S. Bukina – researchers from RAS Institute of Economics [34] – point out that one of the key problems in the implementation of budgetary policy consists in a significant lag in decision-making in the course of actively unfolding crises in 2008–2009 and in 2014–2016. In turn, there was a delay in the allocation of budget resources to critical social issues. I.V. Karavaeva and E.A. Ivanov [35] highlight the prime role of state budget in reorienting the interests of market participants toward active investment and consumer spending, that is, toward boosting aggregate demand that is necessary as a driving force in economic development of the country and its territories. Consequently, budget capacity has a direct impact on the formation of all elements of socio-economic potential. In the interpretation of the scientists [23], budget capacity is the main basic resource potential. In our opinion, it should be considered as the initial basic category in the creation of administrative-legal and socio-economic basis for modernization and transition to an innovative model of economic development on the territories. In connection with these circumstances, it is advisable to study the issue in more detail using the method of dialectical ascent from the abstract to the concrete, which

Table 3. Structure of socio-economic potential of the territory

| Resource potentials | | Providing potentials | | | Development potentials | |
|--------------------------------|---------------------------|------------------------------|---------------------------|------------------------------------|------------------------|--|
| Facilities and equipment block | Natural resources | Financial and economic block | Social and infrastructure | Innovation and institutional block | Science and innovation | |
| | Economic and geographical | | Production | | Normative and legal | |
| | Demographic | | Labor | | Investment | |
| | | | Budget capacity | | | |
| | | | Export and import | | | |

Source: compiled with the use of [27].

was developed by K. Marx [33] and according to which socio-economic potential is the abstract category, and budget – the concrete one.

Methodological approaches to the essence of budget capacity

Budget capacity has been studied by foreign scientists since the 1970s, when the focus of regional policy shifted to the maximum use of the internal potential of regions [36]. At the same time, the term “fiscal (budget) capacity” became more widespread in the 1990s, when a modified policy of so-called progressive financial consolidation emerged and helped determine the possible level of budget capacity implementation [37]. According to J. Martinez-Vazquez and L.F. Jameson Boex [38], the level of budget capacity should be an important factor in the allocation of intergovernmental subsidies to equalize the volume of regional resources.

Indeed, the term “budget capacity” is widely used both in the scientific community and in administration practice. At the same time, the Budget Code of the Russian Federation, being the main legal document regulating budget processes in the country, does not clarify the concept of “budget capacity” and considers the tax capacity index alone¹. The lack of a normative definition prompted the researchers, who study budget capacity, to determine its meaning. The study of the evolution and modern interpretation of the term “budget capacity of a territory” allowed

¹ The ratio between the estimated tax income per inhabitant, which can be obtained by the consolidated budget of the subject of the Russian Federation based on the level of development and structure of the economy/tax base, and a similar indicator on average for the consolidated budgets of the subjects of the Russian Federation, taking into account the structure of the population, socio-economic, geographical, climatic and other objective factors and conditions affecting the cost of providing the same volume of state and municipal services per inhabitant [Budget Code of the Russian Federation].

us to comprehend, systematize and structure the existing methodological approaches to its definition by highlighting six main and optional approaches in the framework of specific interpretations. Their conceptual content is summarized in *Table 4*.

Based on the generalized characteristics of the approaches presented above, we can point out the following: neither domestic nor foreign financial science has yet developed an unambiguous approach to the essence of budget potential. At the same time, based on the results of the analysis, we have identified a number of polemic methodological issues (*Tab. 5*).

First, many scientists, as well as Russian legislation, are investigating only the problems of tax potential. Without denying the in-depth study of this issue, we emphasize that, in our opinion, the category of budget capacity significantly expands the ability of territories to influence economic growth. L.N. Lykova in her study [32] points out that for Russia, unlike countries with developed market economies, it is fundamentally important to consider not only the problem of tax potential, since some of the financial resources are not partially or completely subject to taxation.

In addition, the study of budget capacity does not limit the elimination of the imbalance of the budget system as the main strategic threat to national security in the economy² only at the expense of tax revenues. Moreover, the Budget Code contains, among other principles of the budget system of the Russian Federation, the principle of minimizing the size of budget deficit (budget balance), the achievement of which is possible only when all revenues are taken into account³.

² On the National Security Strategy of the Russian Federation: RF President’s Decree No. 683 dated December 31, 2015.

³ Article 33 of the Budget Code of the Russian Federation.

Table 4. Characteristics of approaches to the interpretation of the concept of “budget capacity”

| Name of the approach | Budget capacity of a territory means... | Representatives |
|--|---|---|
| Resource-based | All the financial resources accumulated in the budget during a certain period | Zh.G. Golodova L. Haffert, Ph. Mehrrens, S.V. Zenchenko, Zh.A. Mingaleva, N.P. Pazdnikova, T.P. Nikolaeva, A.V. Sidorovich |
| Fiscal | Ability of the regional economy and administration bodies to generate and maximize budget revenues | A.A. Shamluev, Yu.A. Petrov, S.M. Barro, J. Martinez-Vazquez, L.F. Jameson Boex, V.A. Vorob'eva |
| Resource and fiscal | The dialectical development and the mix of resource-based and fiscal approaches that is observed since 1990s. | M.V. Vladyka, A.N. Indutenko, L.D. Sanginova, Yu.N. Severina O.S. Kirillova |
| Expenditure-based | Maximum possible budget expenditures based on the revenues | O.A. Grishanova, T.A. Naidenova, I.N. Shvetsova |
| Institutional | The set of legal and economic conditions that help form the optimal amount of budget revenues | N.I. Yashina, S.N. Yashin, F.F. Khanafeev, E.V. Poyushcheva |
| Imperative | Fiscal relations, as a result of which a complex system of economic indicators is formed | T.Yu. Tkacheva, L.V. Afanas'eva, N.A. Tolkacheva |
| Source: our own compilation based on [11, 21, 22, 23, 25, 26, 39, 40, 41, 42]. | | |

Table 5. Polemic issues in the methodology of the essence of budget potential and possible ways to resolve them

| # | Polemic methodological issue | Suggested answer |
|------------------------------|---|---|
| 1. | Budget or tax capacity? | The category of budget capacity expands the possibilities of territories to solve the problems of imbalance of the budget system and to influence economic growth taking into account the whole range of budget revenues. |
| 2. | What approach to the essence of budget capacity is most effective in the context of the need for economic growth? | An integrative approach to the study of the essence of budget capacity takes into account the resource, institutional and fiscal factors, which allows us to reflect the current level of budget capacity and the effectiveness of its use most effectively in modern conditions. |
| 3. | Are the terms “capacity”, “resource”, and “achieved level of development” identical? | Etymologically, “capacity” must assume probabilistic character. At the same time, potential opportunities may be in a state of unclaimed resources (unused opportunities), and in a state of development and actualization. |
| 4. | What is the goal of increasing budget capacity? | To promote territorial development by forming an innovative economy and improving the quality of life. |
| 5. | What stage of territorial development should budget capacity be identified with? | Budget capacity, being an element of the system of socio-economic potential, should be considered in the unity of its key stages: formation, use and reproduction |
| Source: our own compilation. | | |

Second, there is no single point of view on the very essence of the term under consideration. Some scientists interpret budget capacity as a set of resources, while others suggest considering it as a set of opportunities or as a result of budget relations. In general, we have identified six approaches to the interpretation of budget capacity in economic literature: resource, fiscal, resource-fiscal, expenditure, institutional, and imperative. In our view, each approach in itself is a narrow interpretation of the term “budget capacity”, which unduly limits the methodological basis of the study. We think that the study of budget capacity development requires such an approach to the understanding of this economic category, which takes into account its complex factor, resource, institutional and fiscal nature. In our view, this will reflect both the current level of budget capacity and the effectiveness of its use. It can be concluded that the integrative approach as a set of these characteristics is most consistent with the modern content of the term “budget capacity”, and the integration of the selected approaches to its definition will help resolve this controversial issue.

Third, when considering different approaches separately, we find a substitution of the concepts of “capacity”, “resource”, “reserves”, “opportunities”, and “achieved level of development”. The complexity and fundamental nature of budget capacity as an economic category is associated with the fact that it contains the time parameter. The authors [43, 44, 45, 46] point out that the terms “resources”, “reserves” and “opportunities” characterize different time stages of manifestation of capacity: the previous period is characterized by the process of formation and accumulation of resources; the present period involves the implementation of the accumulated reserves; the period of

future development reflects the process of reproduction of new opportunities. We agree with the opinion [11] that the achieved level of development is a kind of result that arises when potential opportunities, available territorial resources and effective tools for their transformation (tactical and strategic priorities of regional and municipal development, budget policy, specifics of the budget process, etc.) are combined. It is important to bear in mind that the etymological essence of the term “capacity” implies the probabilistic nature of this category. At the same time, the viewpoint of F.F. Khanafiev is quite logical [47]: he believes that potential opportunities may be in the state of non-demanded resources (unused opportunities), and in the state of development and actualization.

Fourth, there is no common understanding of the target setting of the term budget capacity. We think that without setting the goal of its formation, budget capacity cannot exist on its own, because it is necessary to understand what reserves and opportunities are required for; that is, for the purpose of achieving some end result. Some authors consider this from the perspective of financing current expenditures. However, in our opinion, the most accurate is the approach that addresses the issue of transition of the Russian economy to an innovative development path.

Fifth, authors consider various stages of formation of budget capacity. In our opinion, a system approach should be used in the interpretation of this economic category. It implies that budget capacity should be perceived as a whole that consists of interrelated parts and that is at the same time part of a higher-order system. Therefore, budget capacity as an element of the system of socio-economic potential should be considered in the unity of the key stages of its formation: formation,

use and reproduction. This means that the interpretation of budget potential should take into account both the processes of formation and implementation of territorial opportunities.

In addition, the study of theoretical and methodological approaches showed that, when disclosing the essence of budget potential, the majority of authors do not take into account that it is related to the territory that is the carrier of such properties.

Having analyzed the debatable nature of the content of budget capacity, we find out that its essence is not elaborated well from the methodological perspective. As a result, there is a lack of scientific basis when it is necessary to raise the level of budget capacity of Russian territories in the modern period of instability, external and internal restrictions to economic growth; and the country needs this growth in order to shift to an innovative development path.

Thus, an integrated approach is required, which would highlight the main elements that reveal the content of the economic category of “budget capacity”: target setting, relationship with the sustainable development of the territory, forming factors, and taking the carriers into consideration. Taking into account this approach, generalization of the opinions contained in the legal acts and scientific works on the problems of budget capacity development that we have considered, as well as our own viewpoints on the most controversial

issues of the methodology, allowed us to make a conclusion that the economic essence of the category “budget capacity” can be reflected most accurately in the following interpretation. Budget capacity is a set of budget resources, as well as economic, social, institutional and other opportunities for the formation and execution of the budget so that regional authorities and local government could fulfill their tasks to ensure sustainable development of the territory and improve the quality of life.

Summary

In conclusion, we note the following.

1. Our study shows the place and role of budget capacity in the system of territorial potentials. The way in which budget capacity (which is a providing potential and an integral part of the financial and economic block of potential) is used, will determine the directions of socio-economic development in the territory.
2. Having analyzed different approaches to the essence of the economic category of “budget capacity”, we identify a number of controversial issues. A careful study of each of them prompted us to substantiate our own vision of possible answers.
3. We prove that the content of the term “budget capacity” should be disclosed through its main elements: target setting, relation to the sustainable development of the territory, forming factors, and carriers. With this in mind, we propose to use an integrative approach in disclosing the content of budget capacity.

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