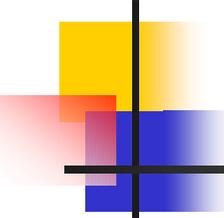


Public Policy and Budget Structure: Analysis of Budget Development in CIS and Developed Countries

George Chabakaury
Elena Sharipova

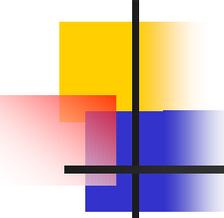
Institute for Open Economy

September, 2004



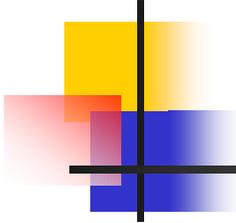
Main Issues

- Comparison of expenditure items in Russia and cross world
 - Developed countries
 - Russia, CIS, and transition countries
- Evaluation of budget policy priorities in different countries
 - “Economic” constraints
 - “Political” constraints
- Political-economy aspects of budget process



Data and Methodology

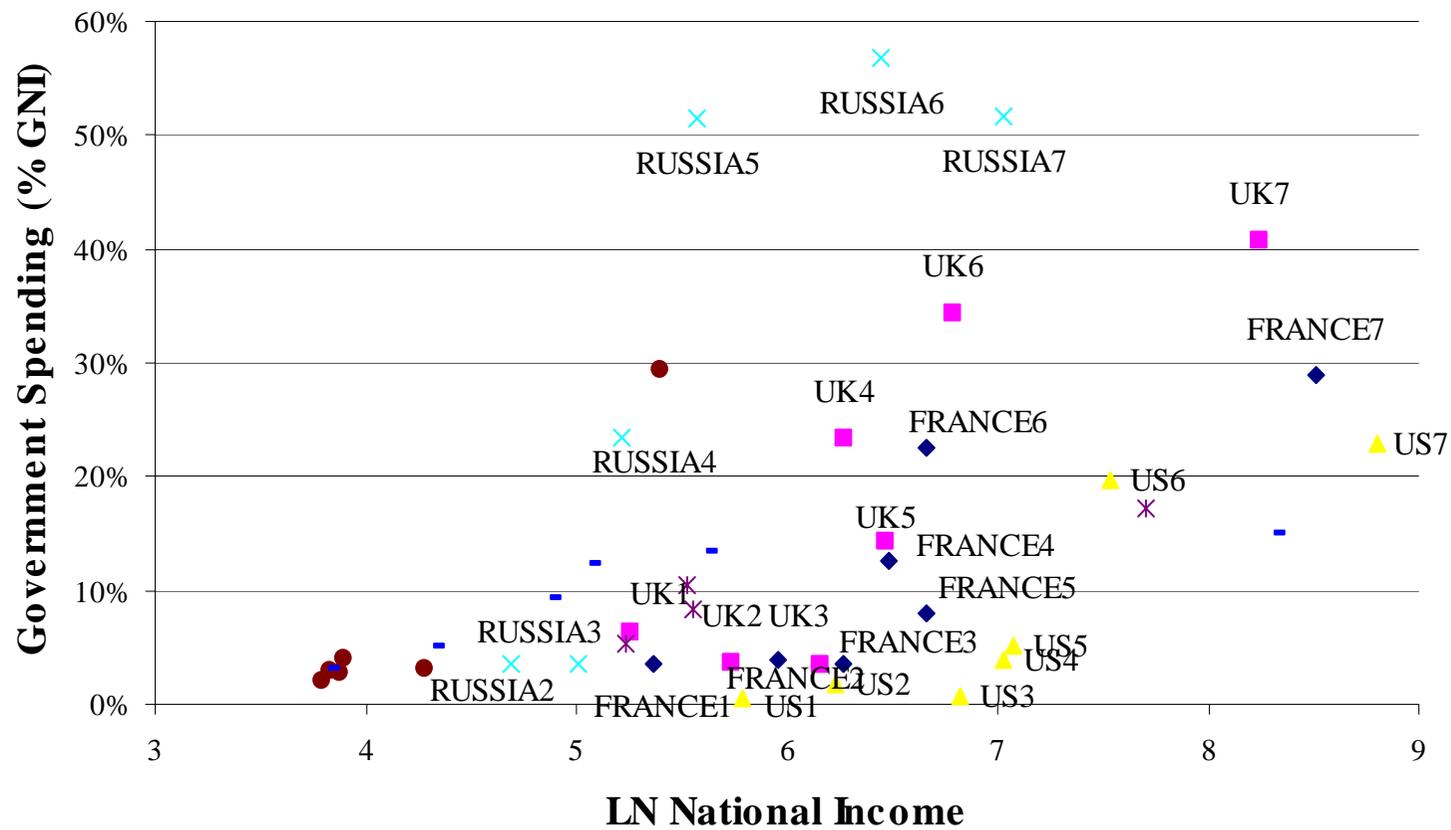
- Government Financial Statistics, IMF
 - Developed economies (East Europe, North America, Japan, and Korea) – 20 countries
 - Transition economies – 18 countries
- Goskomstat and Ministry of Finance of Russian Federation
- Freedom House: Status Democracy Index
 - Political rights
 - Civil liberties
- Overall budget expenditure, including regional budgets and social security funds



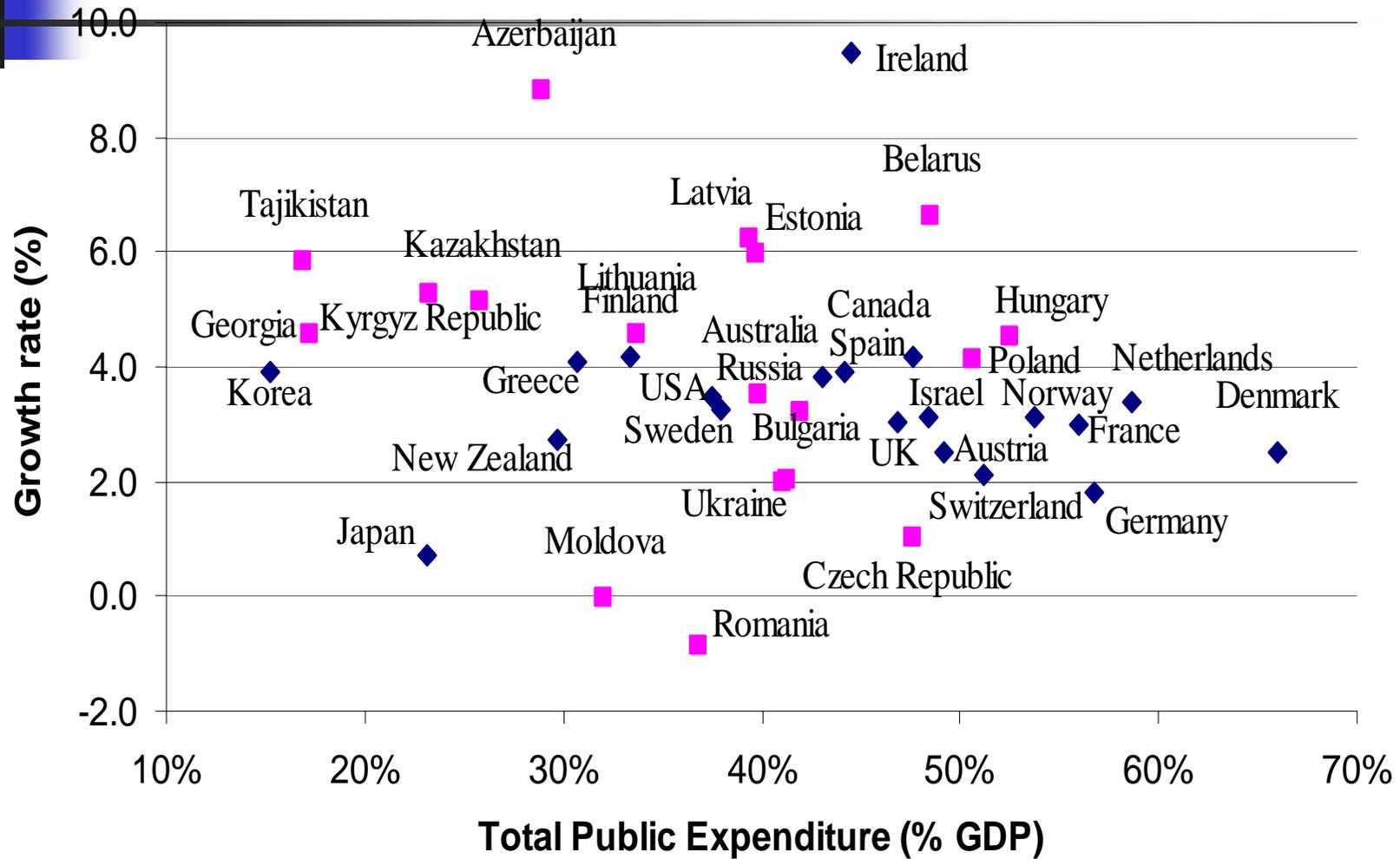
Government Spending in National Income: Historical Overview

Time	1816-1859 (1)	1860-1893 (2)	1894-1913 (3)	1919-1935 (4)	1946-1960 (6)	1961-1985 (7)
FRANCE	3.6%	3.9%	3.6%	12.5%	22.5%	28.8%
GREAT BRITAIN	6.4%	3.8%	3.6%	23.4%	34.4%	40.9%
RUSSIA	-	3.6%	3.6%	23.4%	56.7%	51.7%
USA	0.6%	1.8%	0.7%	4.0%	19.8%	22.9%
ARGENTINA	-	-	3.6%	7.0%	20.0%	14.8%
CHINA	-	2.0%	3.0%	2.8%	3.1%	29.5%
JAPAN	-	3.3%	5.1%	9.4%	13.6%	15.1%

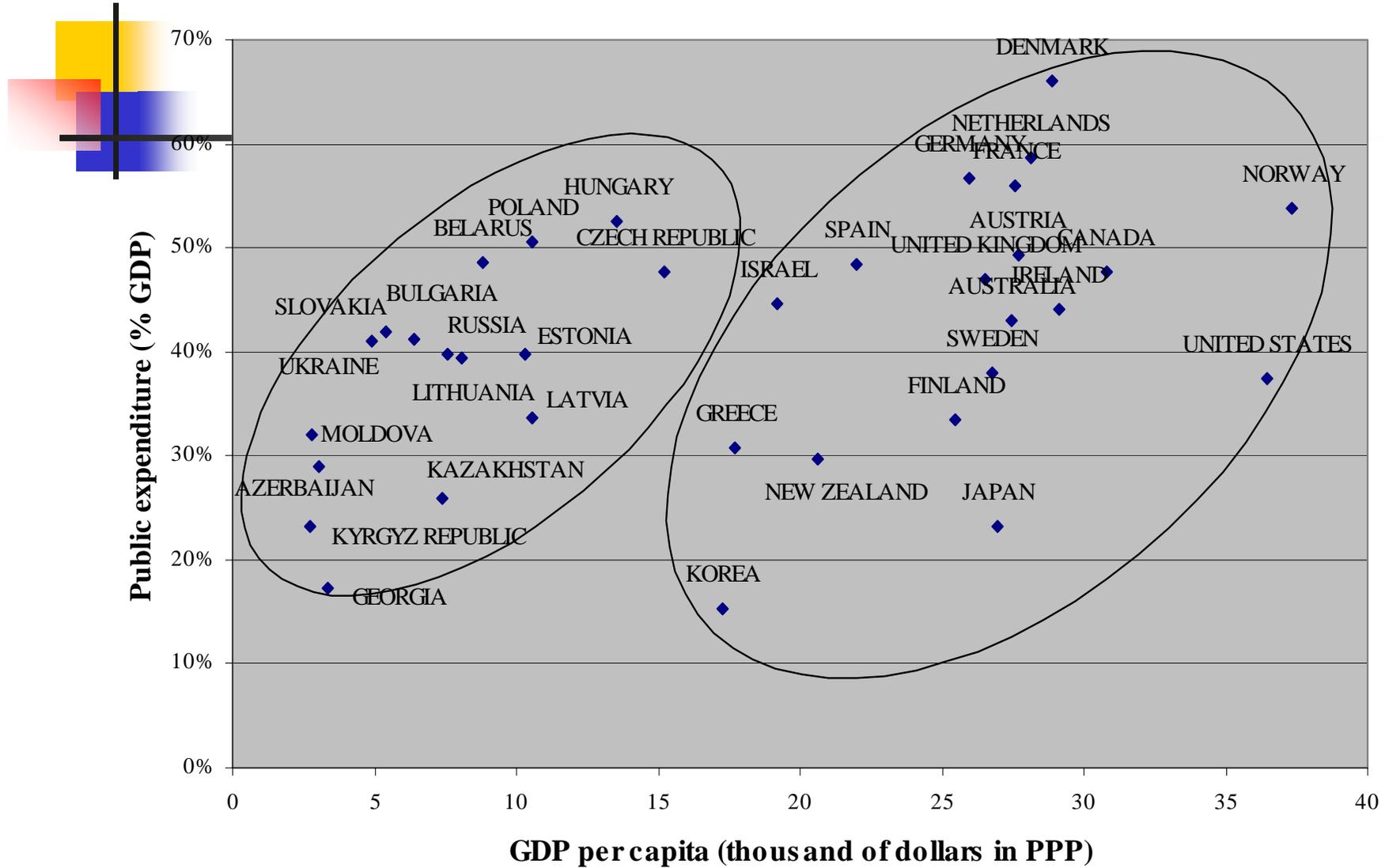
The Story of Government Spending

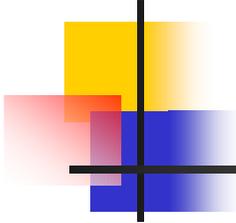


Public Spending and Economic Growth (1997-2001)



Public Expenditure and Living Standards

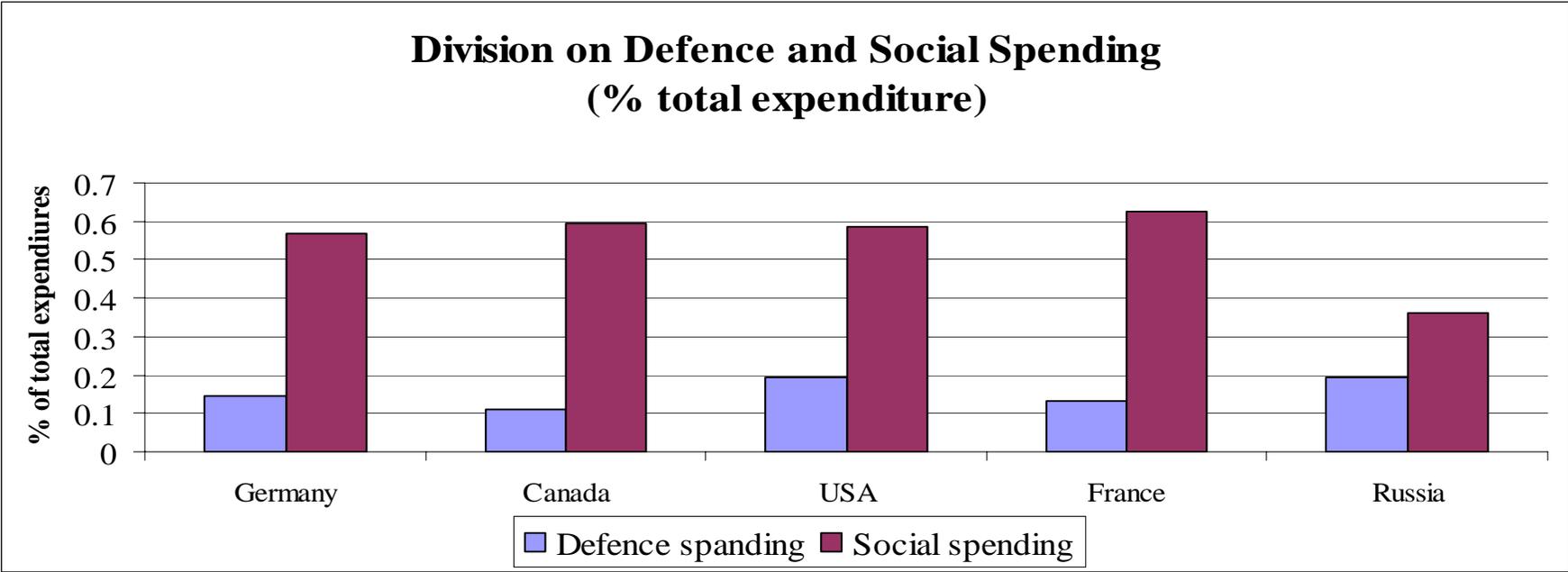
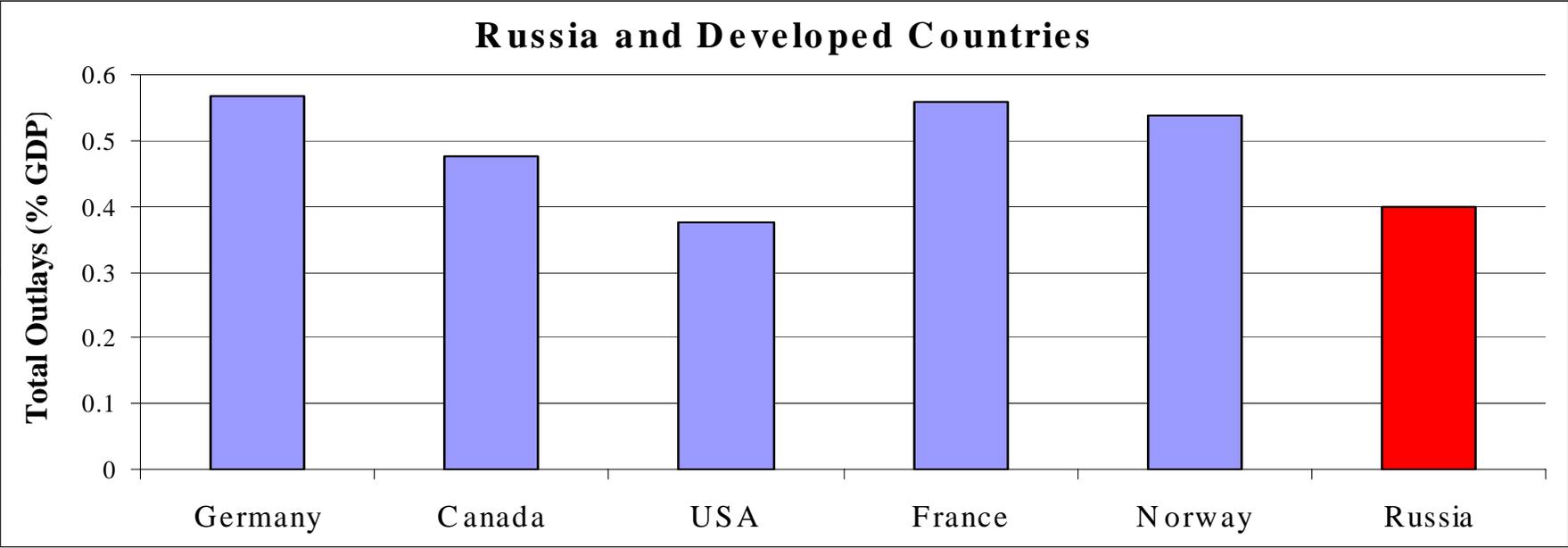




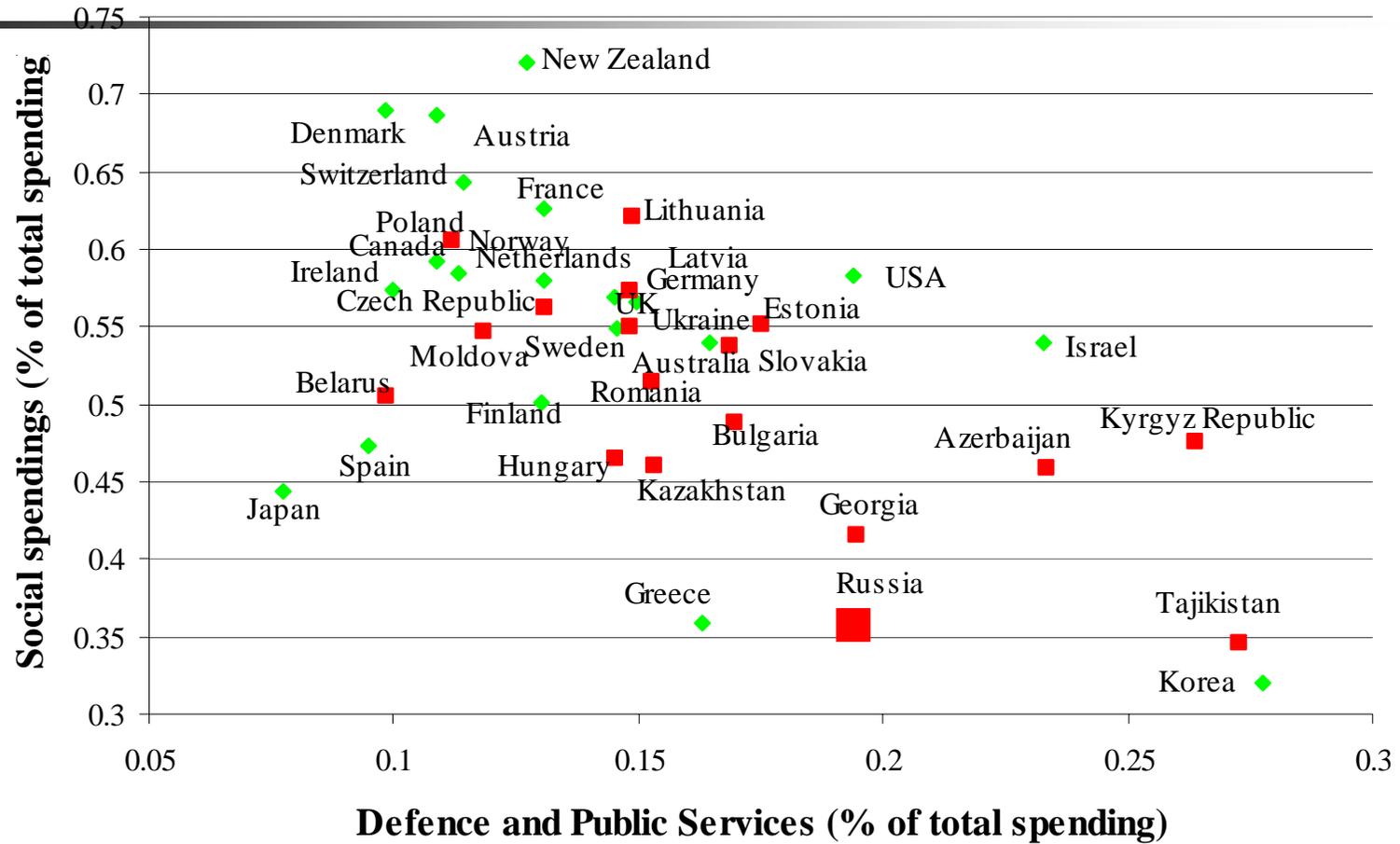
Overall Public Outlays Structure

Structure of Budget Outlays (% of total expenditure)

Country	Year	Public Services,				Social Security &
		Order & Safety	Defence	Education	Health	Welfare
USA	2000	11.6	7.6	19.4	18.2	20.7
UK	1999	7.8	7.1	3.7	15.4	36.5
NORWAY	1998	7.7	6.4	6.8	4.8	39
FRANCE	1993	8.6	4.4	9.3	18.3	35.1
GREECE	1998	7.9	8.4	10.8	7.1	17.9
ROMANIA	1999	8.3	4.9	9.8	13.6	29.8
AZERBAIJAN	1999	14.6	8.6	15.7	4	26.1
GEORGIA	2000	16	3.3	12.6	4.9	24
BELARUS	2001	7.1	2.7	13.3	9.7	27
RUSSIA	2001	13	7.7	7.5	4.7	23.6
KAZAKHSTAN	2001	12.3	3	12.5	8.1	25.4
KYRGYZ REPUBLIC	2000	18.8	7.5	25.3	14.2	8
TAJKISTAN	2001	20.3	6.8	14.3	5.7	14.5

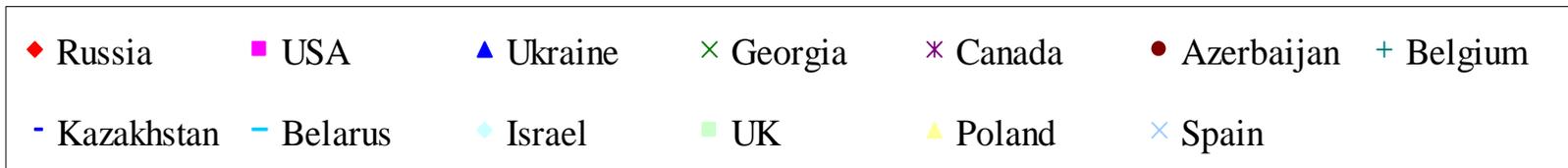
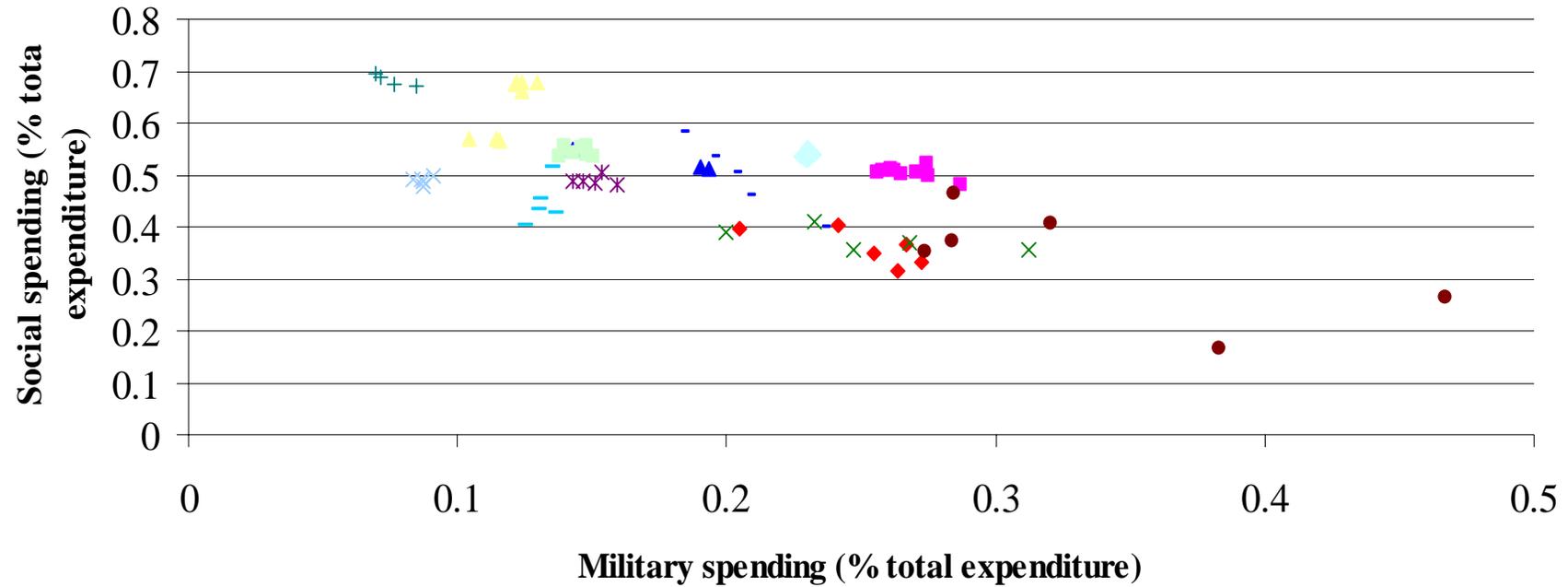


Main Expenditure Outlays Cross Countries



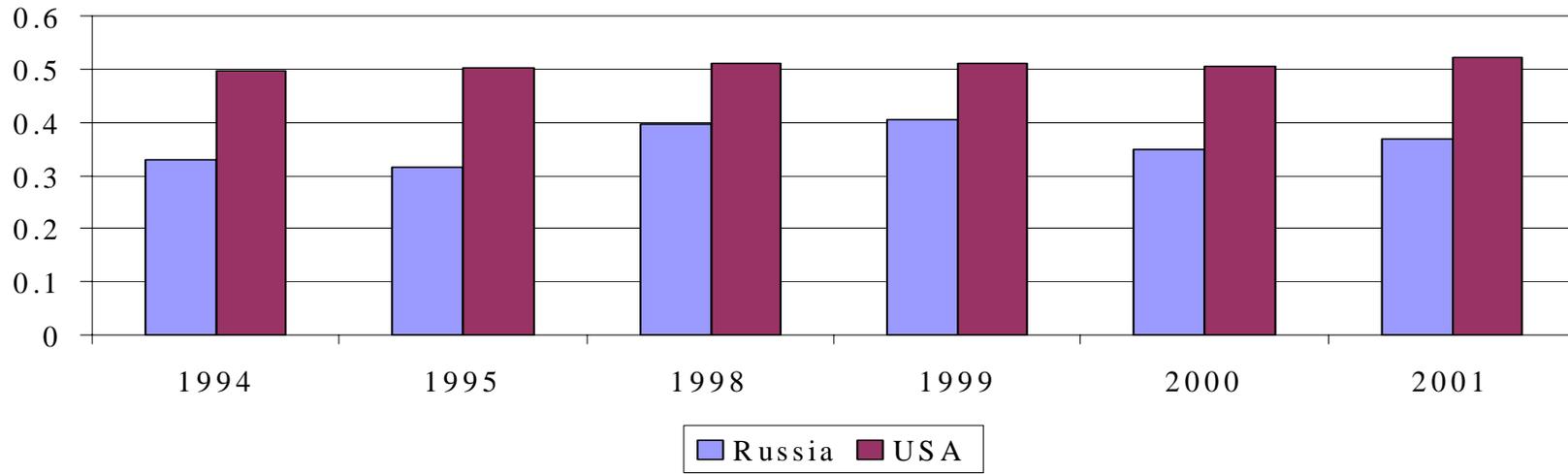
◆ OECD countries ■ transition countries

Stability of Spending Structure 1997-2001

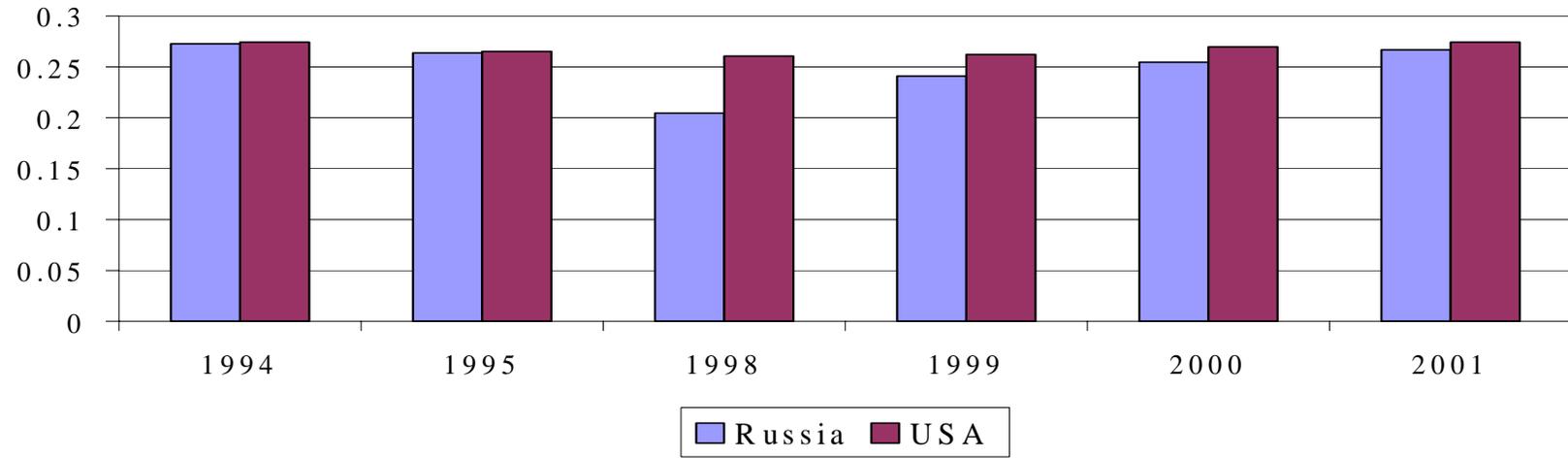


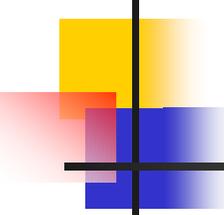
Developed countries have more stable budget structures

Social Spending (% total)



Defence, Order, and Public Services (% total)

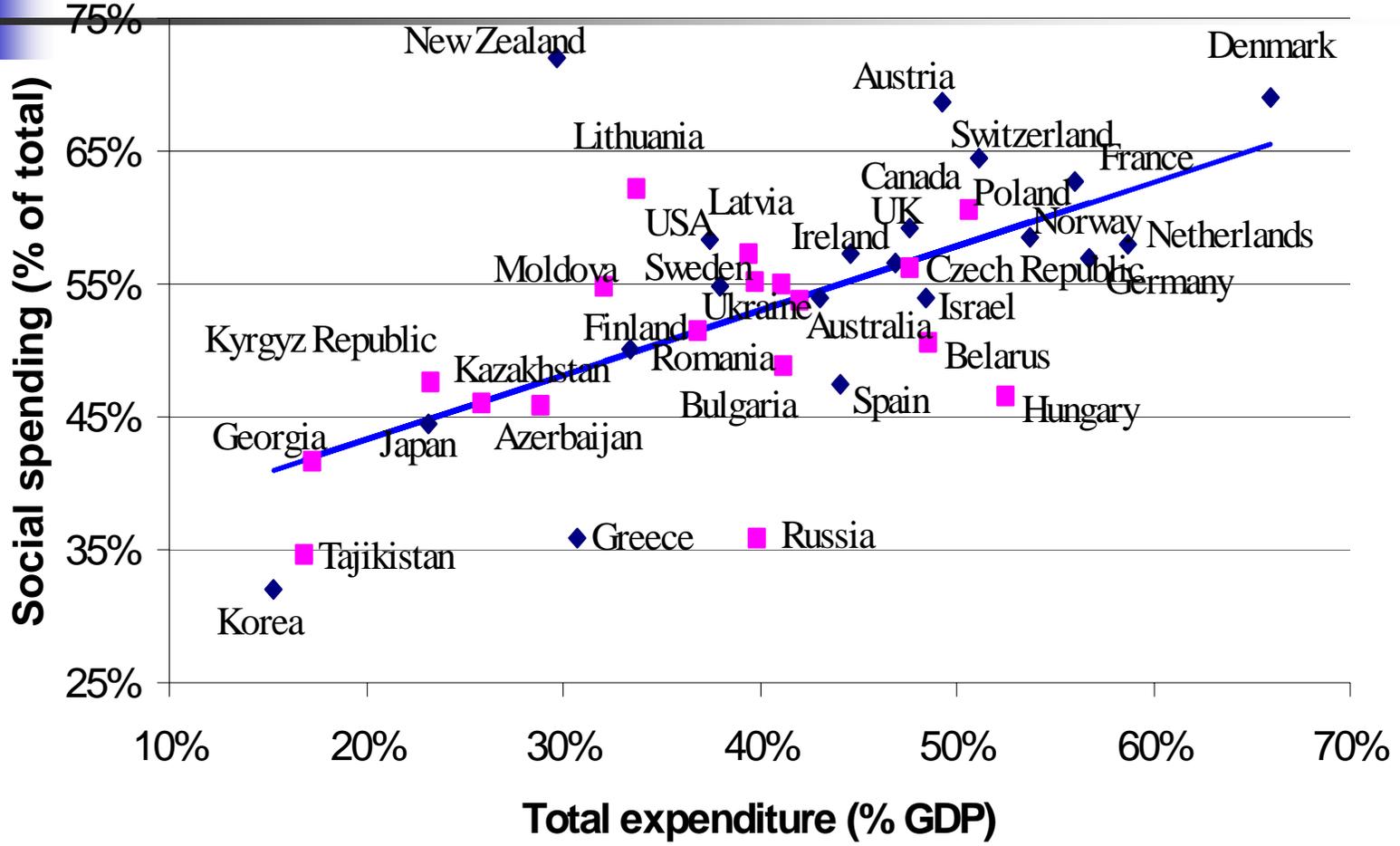




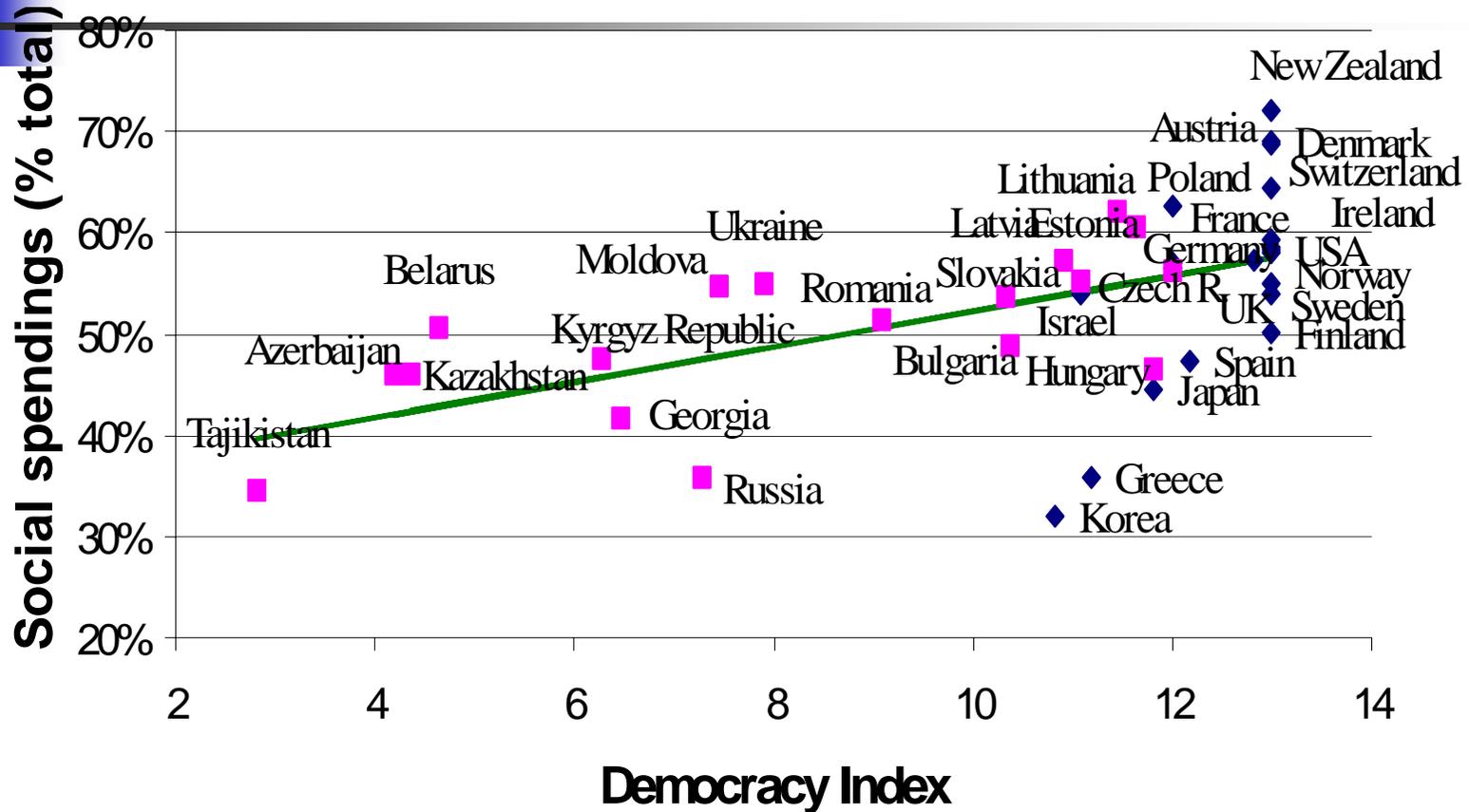
Budget Priorities: Social Policy or Military?

- Structure of government spending depends on:
 - Total size of the government
 - Do countries follow the strategy of increasing spending items with budget widening?
 - Political environment
 - Do “pure” democratic factors have an influence on budget structure

Social Spending vs. Total Budget



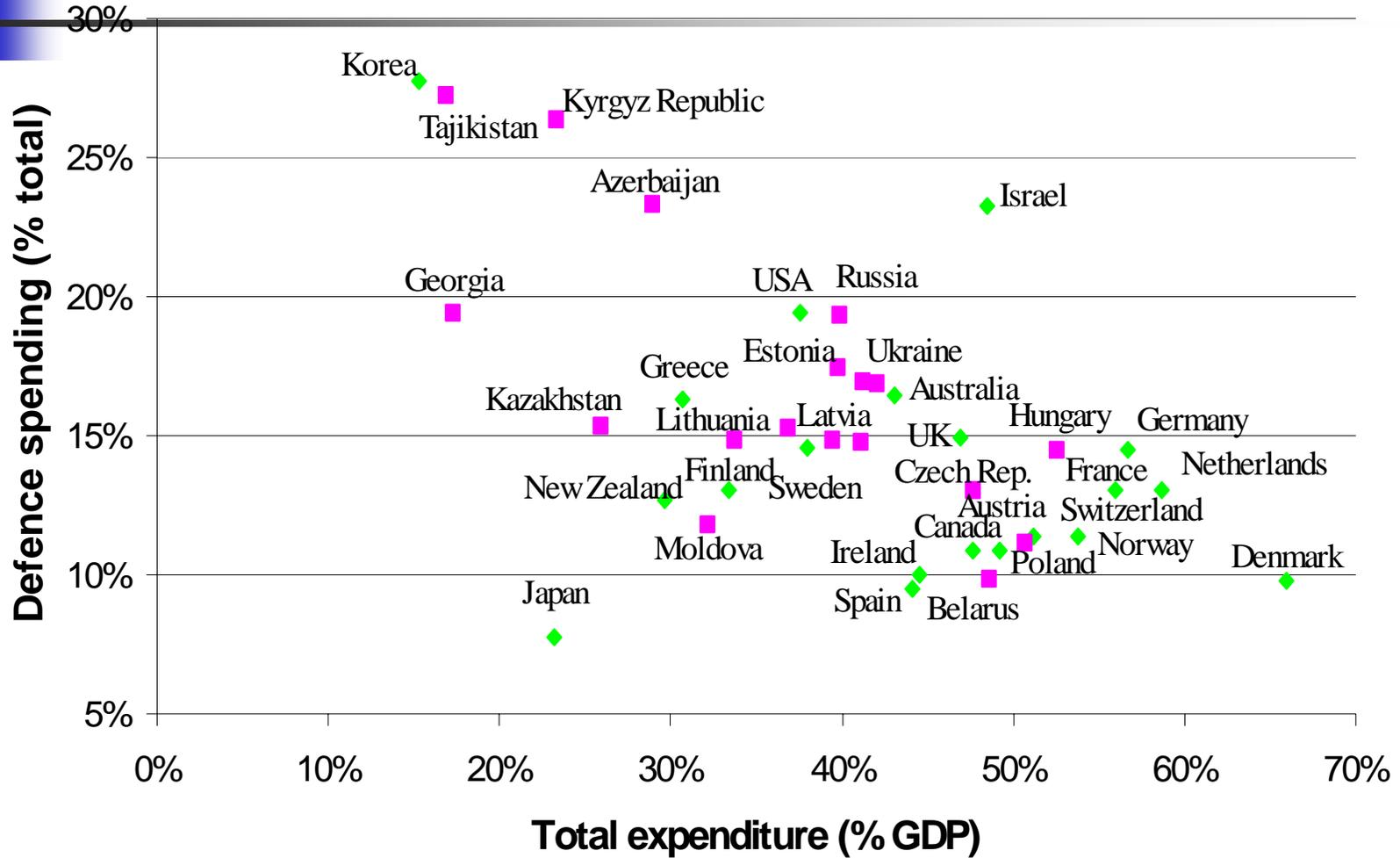
Social Spending vs. Democracy



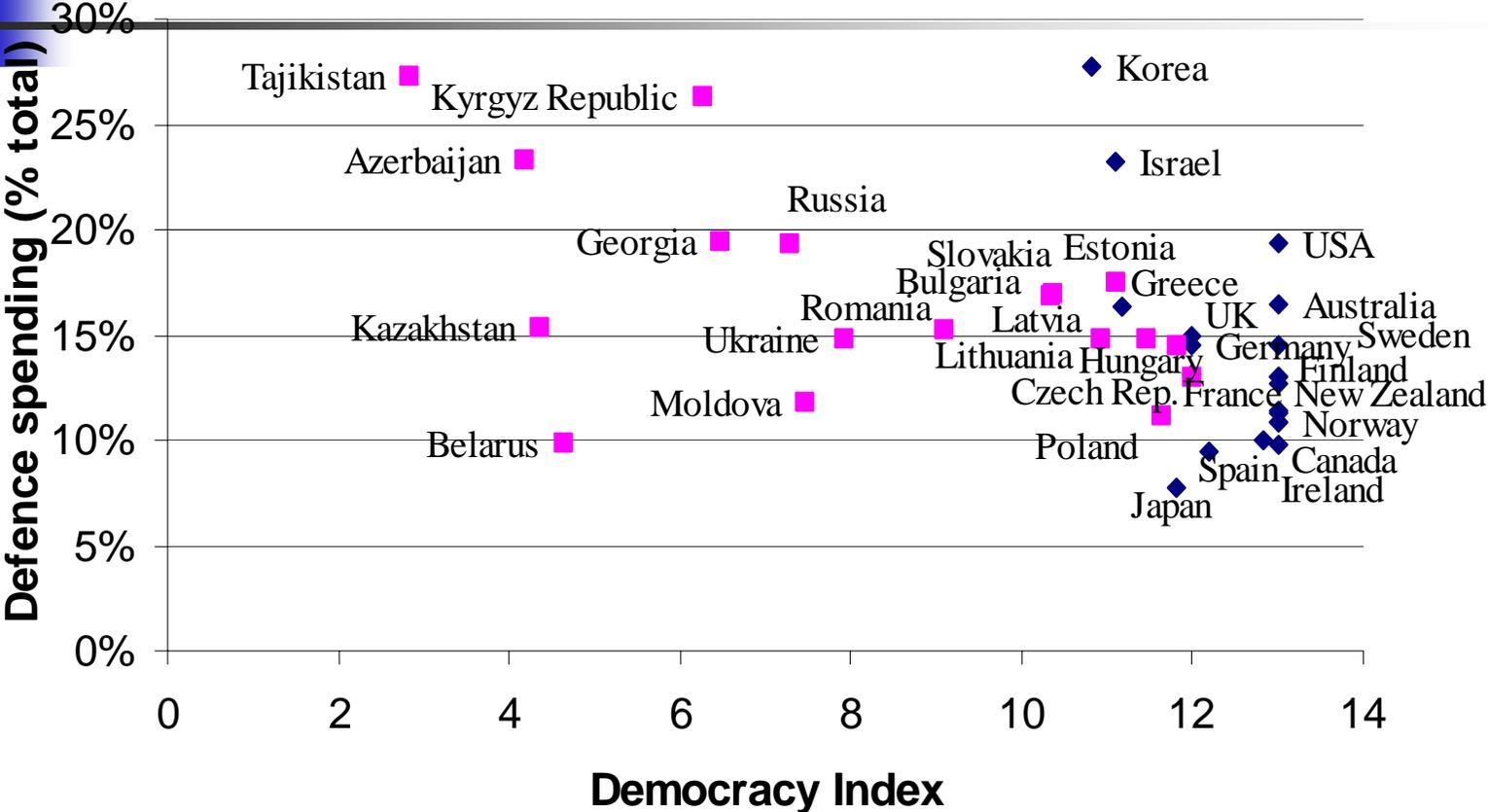
Social Expenditure: Total budget and Democracy

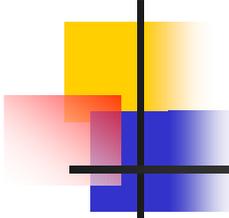
	Transition		OECD		Joint sample	
Total Expenditure (%GDP)	0.3547 (2.617)	0.0786 (0.417)	0.5219 (3.644)	0.3528 (2.795)	0.4810 (5.452)	0.3565 (3.212)
Democracy Index	-	1.4975 (2.373)	-	7.0491 (3.285)	-	0.9602 (2.092)
Number of observations	18		20		38	
R-squared	0.260	0.462	0.426	0.648	0.401	0.467

"Power" Spending vs. Total Budget



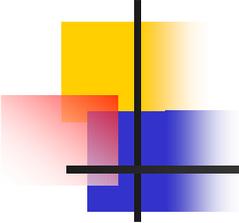
Defence Spending vs. Democracy



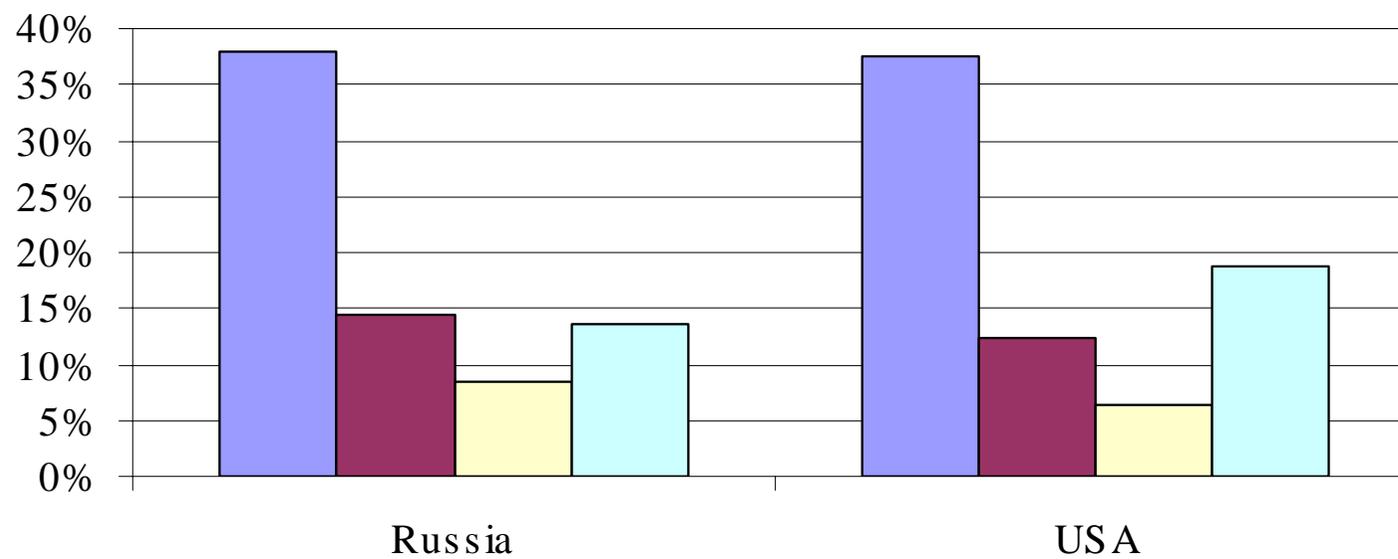


Defense Expenditure and Democracy

	Transition		OECD		Joint sample	
Total Expenditure (% GDP)	-0.3052 (-3.539)	-0.2920 (-2.640)	-0.1507 (-1.266)	-0.0714 (-0.893)	-0.2264 (-3.361)	-0.1694 (-1.840)
Democracy Index	-	-0.0716 (-0.195)	-	-3.3079 (-2.434)	-	-0.4400 (-1.252)
Number of observations	18		20		38	
R-squared	0.501	0.502	0.157	0.375	0.321	0.371

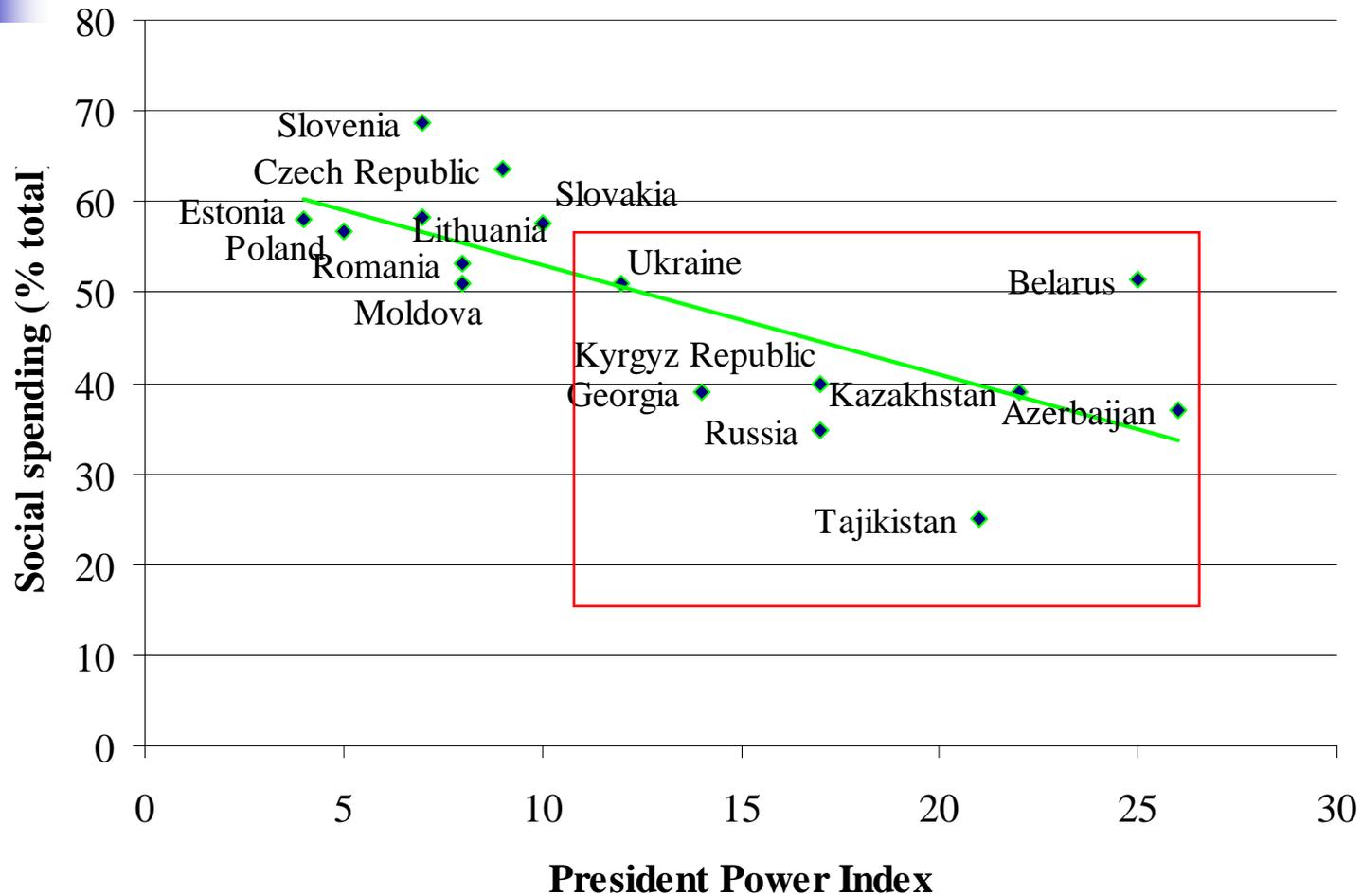


Total Public Expenditure in Russia and USA, 2000, % GDP



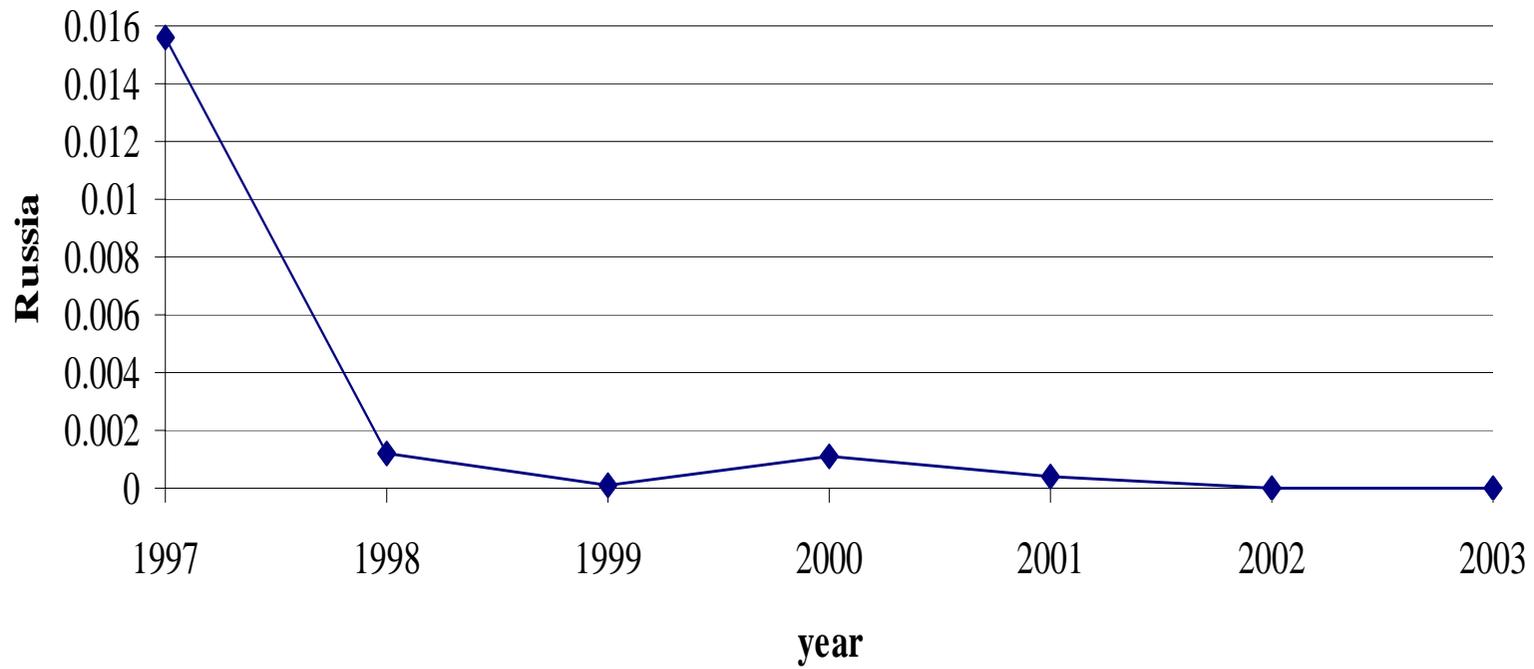
■ Total expenditure ■ Central government ■ Social funds ■ Regional

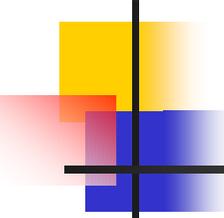
Political Regimes and Social Spending



Negotiation Power Index

Russia





Main Findings

- Budget structure of Russia is biased to defense spending and social spending is below “normal” level
- High volatility of budget structure is common for CIS countries and higher stability inhere for developed countries
- The size of total budget plays more significant role in social spending for developed countries
- Democracy index has a meaningful effect for CIS as well as for developed countries
- “Power” expenditure are more important for CIS countries, increase in total budget would not increase defense spending
- Democracy does not play an important role for defense spending for CIS, but does have a significant influence for developed countries
- Strong “President” regimes spend less on social needs