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Inefficient Russia: Why the Russian Budget Performs Poorly

In Russia, funding goes to those who do not lack resources, instead of people in need

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Yelena Palym / TASS

In terms of the effectiveness of budget expenditures, Russia lags behind not only developed countries, but also most former socialist states.

Analysts at the Higher School of Economics in Moscow calculated the effectiveness of Russia's budgetary spending relative to OECD countries (more than 60 percent of world's GDP) and Lithuania. The result: Russia came in next to last — in 36th place — outperforming only Greece and placing directly behind Mexico and Latvia.

The authors of the study gauged overall performance according to seven indicators of budget

sector activity. Four reflect activity in the governance, healthcare, education, and transportation infrastructure sectors. Three concern functions such as the distribution of public goods, the redistribution of income, and the stabilizing effect of government spending.

For effectiveness in governance – measured in terms of property rights, the independence of the courts, the level of corruption, and so on – Russia surpassed only Slovakia. For the effect of financing in infrastructure, Russia placed last: despite qualitative progress over the last decade, it continues to lag far behind other countries.

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Russia also placed near last (35th place) for the effectiveness of spending on healthcare. Infant mortality has decreased, but remains higher than in the overwhelming majority of countries. Russia placed last for life expectancy.

Russia fared better for spending on education, placing 31st.

However, it did slightly worse for effectiveness in the fight against poverty, placing 33rd: 40 percent of Russians have low incomes. However, the Kremlin can take satisfaction from knowing that the problem is even worse in the United States.

Efforts at stabilization also fall short. Russia experiences high volatility in both its GDP growth and inflation rates. The Russian budget did a better job of distributing public goods – calculated from the overall unemployment rate, per capita GDP, and economic growth. Here, Russia placed 20th.

The low quality of state institutions breeds corruption and the misuse of government funds, including for infrastructure development. Financial assistance is poorly targeted as well: funding often goes to those who do not need it, while those who are truly in need go without.

The fact that the Russian economy remains heavily reliant on raw materials exports only exacerbates the situation. Russia spends a greater share of its budget on security and the machinery of state than every other country but Israel, the U.S., and Turkey. This has a negative impact on the effectiveness of both, the authors note.

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