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Resident Altruism and Local Public Goods

This policy brief discusses residents' voluntary payments for local public goods in Russian municipalities in a historic and a comparative international context. We emphasize the behavioral aspects of such collective action and the political economy risks of implementing this financial mechanism. Finally, we use data from the Russian Federal Treasury to offer empirical evidence on the regional variation in the amounts of these payments.



Theoretical grounds

One of the drawbacks of a system of fiscal federalism is that it often results in an inadequate distribution of fiscal authority between regional and local governments. As a result, municipalities may be incapable of levying a due amount of taxes for the provision of the required quantity or quality of local public goods. A solution to the problem may be found in residents' voluntary monetary and nonmonetary contributions to local projects. In Russia these are financial contributions to projects such as the renovation of roads, pedestrian bridges, parks, sports grounds and playgrounds, street lighting, the cleaning of ponds and rivers, etc. (Besstremyannaya, 2019). The experience of municipalities in the U.S. provides similar examples of residents' financial contributions to municipal projects: here these resources are used, for example, as additional funds for financing secondary education (Winerip, 2003).

There are several potential theoretical explanations for the motivation of individuals to engage in such voluntary contributions. To start with, they can be motivated by purely altruistic concerns about local public welfare and the benefits of others (Ferris, 1984). Alternatively, the motives of individuals may be better (and, perhaps, more realistically) described by the approach of impure altruism (Andreoni, 1990), which trades off the amount of the public good against the size of contribution in motivating the behavior of the individual.

Further, the phenomenon of voluntary contributions is closely related to the desire of local authorities to substitute for insufficient budgetary revenues. As a result, residents may be coerced to submit monetary or in-kind labor payments for community development (Beard, 2007), for instance to put asphalt on rural roads (Olken and Singhal, 2011). Accordingly, instead of referring to residents' contributions as donations, one may consider this mechanism of raising extra resources for local budgets as a type of informal

tax. Arguably, altruism for the provision of public goods may be more prevalent among residents in developed countries, while contributions for local projects in developing countries reflect direct or indirect coercion by local authorities.

This policy brief analyses voluntary contributions to municipal budgets by residents in modern Russia. The presence of only fragmentary evidence from other countries limits our formal comparative analysis. However, we attempt to summarize common issues on the implementation of this financial mechanism.

Russian experience and legal framework

In contemporary Russia, residents' contributions to local projects are called self-taxes ("samooblozheniye") and constitute non-tax revenues of local governments (Article 131 of the Budget Code of 1998, Article 56 of the Local Government Law of 2003).

According to the Budget Code, self-taxes are fixed-size and one-time payments by residents for purposes of local projects, with the list of projects initiated directly by residents and voted at a local referendum. The projects commonly include activities on improving local infrastructure (Balynin, 2015). The December 2017 revision of the Local Government Law attempted to add additional incentives for self-financing by making it more targeted (in terms choosing urgent local projects) and easier to coordinate (in terms of organizing a referendum) by allowing referendums by residents of only selected parts of a municipality.

According to the Budget Code of the Russian Federation, self-taxes are earmarked items in non-tax revenues of local budgets, and may not be interrelated with other types of revenues or with the deficit of local government.

It should be noted that the use of self-taxes is not new in modern Russia: this funding mechanism was temporary exploited by Soviet authorities in



the 1920s and 1930s, and was revitalized in the emerging Russian economy in the 1990s.

The early use of self-taxes in Soviet Russia illustrates the issue with the transformation of self-taxation into informal taxation. Self-taxation was introduced in 1924 as a formally voluntary decision of residents on financing local public goods. However, one may doubt whether the decision was indeed made by residents without pressure. Moreover, the lists of local public goods to be financed by self-taxes were determined by public authorities (Resolution by the Central Executive Committee and Soviet of National Commissars of the USSR of 3.08.1931). An illustration of the opposition to this informal tax may be found in the protocols of the council of residents of Roksanka, a village in Kaluzhskaya region from August 1928: citizens decided not to use self-taxes to finance a local school, since they believed there were sufficient budgetary funds – namely revenues from sold public property (Sergienko, 2015).

Calls to avoid similar retransformation of self-taxes into an informal tax were noted in modern Russia in 2006-2007, when the Bills on the amendments to the Local Government Law attempted to empower local authorities with the rights to deal with issues of self-taxation (Emetz and Makarov, 2016).

International experience

Private contributions in the form of monetary payments or labor participation are common in developing countries and are explained by the need to improve the insufficient quality of basic local public goods. For instance, the mechanism is used for road construction, water supply or primary education (Olken and Singhal, 2011). At the same time, residents of developed countries may choose to contribute to sustaining a high quality of local public goods: fire departments, medical centers, museums (Bice and Hoyt, 2000; Ferris, 1984). For example, the introduction of a redistributive mechanism of budgetary funds

across rich and poor municipalities may lead to a decrease in the quality of public goods in the richest municipalities (owing to a fall in per capita funds after the redistribution). Accordingly, residents of rich municipalities may voluntarily decide to collect extra funds to recover the formerly high quality of public goods (e.g. secondary education in the U.S., see Brunner and Sonstelie, 2003; Winerip, 2003).

A common challenge to implementing a mechanism of voluntary payments is associated with the difficulties of reaching a decision within a large group of individuals. Indeed, residents may demonstrate selfish behavior or may follow selected local leaders (Jack and Recalde, 2015; Blackwell and McKee, 2003). Moreover, the common lack of enforcement instruments makes voluntary contributions unreliable (Slemrod, 1998).

Interestingly, the methods of dealing with non-compliance are similar across countries: the Perm krai of Russia, municipalities in the U.S. and villages in developing countries use techniques as such notification by mail, home visits, disclosing the lists of non-compliers and employing various ways of informal coercion by neighbors or public leaders (Olken and Singhal, 2011; Miguel and Gugerty, 2005; Winerip, 2003).

Data from Russian regions

We use the 2013-2016 annual data of the Russian Treasury, which allows disentangling self-taxes as an item in the list of non-tax revenues of local budgets. Owing to municipal-level data being unavailable, our analysis concerns the sum of local budgets in each region. Only 33 regions out of 83 analyzed regions had positive self-tax revenues in 2013, and the leading regions in 2015-2016 are the Tatarstan Republic, the Bashkortostan Republic, Kirovskaya oblast, Lipetskaya oblast, Kaluzhskaya oblast, and Perm Krai. The share of self-taxes in non-tax revenues is rather low: it amounts to 2-3% in Tatarstan, while it is less than 1% in the remaining regions (Table 1).



Table 1. Top regions according to levied self-taxes in 2015-2016

	Self-taxes in 2015		Self-taxes in 2016	
	Thousand rubles	% of non-tax revenues of local budgets	Thousand rubles	% of non-tax revenues of local budgets
Tatarstan republic	122268.26	2.11	183413.26	3.44
Kirovskaya oblast	11431.02	0.50	7301.01	0.36
Bashkortostan republic	1943.96	0.02	2781.02	0.03
Lipetskaya oblast	3670.65	0.22	2701.14	0.16
Kaluzhskaya oblast	2073.97	0.11	2620.54	0.15
Permskii krai	3087.31	0.08	2335.02	0.06
Republic South Osetiya-Alaniya	1807.11	0.38	1451.16	0.30
Tyva republic	792.93	0.42	1342.60	0.78
Rostovskaya oblast	1307.36	0.02	1124.40	0.02
Zabaikalskiy krai	847.58	0.08	1092.68	0.11
Samarskaya oblast	1023.76	0.02	978.87	0.02

Arguably, the share of self-taxes in non-tax revenues is not associated with the desire to compensate for insufficient transfers from the federal or regional budgets: the absolute value of the correlation coefficient with the share of transfers to local budgets in non-tax revenues is below 0.25 (Besstremyannaya, 2019, Table 1). Similarly, we found no interrelation of the share of self-taxes with such socio-economic variables as (per capita) gross regional product and density of population.

Next, we focus on the policy of regional governments to provide budgetary funds on top of the money collected through self-taxes. As of 2016, such regional co-financing was present in the Tatarstan Republic, Kirovskaya oblast, Vladimirskaya oblast and Perm Krai (Emetz and Makarov, 2016; Balynin, 2015). The coefficient of regional co-financing of local projects (the amount of regional funds over the locally provided funds) equals 1 in Vladimirskaya oblast and varies from 1.5 to 5 in other above-mentioned regions. Examples of such co-provision of local public goods by region and municipalities include the renovation of water supply facilities in Perm Krai and the cleaning of lakes in Tatarstan (Nikitin, 2018, Platoshino budget, 2017).

Our estimates reveal that coefficients higher than 1 are associated with a higher prevalence of self-taxes. Indeed, the increase in the share of self-taxes in the revenues of local budgets in such regions is much higher than the corresponding growth in regions without co-financing or with unity co-financing (Besstremyannaya, 2019, Table 2).

Finally, we use the data for Perm Krai which experienced a recent reform with a rise of the coefficient from 3 to 5 in 2014. Our estimates of the treatment effect of such a reform and an extrapolation to other regions reveal that a unit increase of the coefficient causes a 55% growth in the share of self-taxes in non-tax revenues (Besstremyannaya 2019, Table 3).

To sum up, regional co-financing of local projects is associated with a growth in the collected self-taxes.

Conclusion

The phenomenon of voluntary contributions to local budgets is relatively common in real life. However, the literature addressing it is rather fragmented. In particular, little is known empirically on the motivation of individuals to engage in such contributions.



Our analysis with the 2013-2016 annual data for Russian regions reveals that residents' contributions to local public goods are unrelated to insufficient revenues by local budgets. Moreover, the share of residents' contributions in the budgetary non-tax revenues is positively associated with regional co-financing of these local projects. Hence, one may conjecture that in Russia, this phenomenon may be viewed as an altruistic attempt to raise quality of local public goods or as a means to signal about the most urgent local projects to regional governments.

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