
Contemporary Challenges of State's Financial Policy in the Social Sphere

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Abstract:

The article is aimed at determining the bottlenecks of contemporary state's financial policy development in social sphere and their relevant solutions.

The study's goal is considering the financial support of social sphere in conditions of curbing the state funding and widening the private financial sources without lowering the standard of living.

It justifies the factors of social costs' growth by spotting the social expenditures' reserves, by analyzing the background of non-government funding sources of social services and by defining directions for further social solutions.

Keywords: *Social policy, funds of social sphere, funding sources, social expenditures, public-private partnership, social entrepreneurship.*

JEL Classification Codes: *H40, H50, H51, H52, H53, H55.*

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1. Introduction

Social development is a key activity of any contemporary state, and is largely determined by the level of population incomes, employment, social sphere condition, and as a result, the well-being of citizens.

The purpose of the article is to determine the bottlenecks of contemporary state's financial policy development in social sphere and their relevant solutions. The study's goal is considering the financial support of social sphere in conditions of curbing the state funding and widening the private financial sources without lowering the life standards; justifying the factors of social costs' growth; spotting the social expenditures' reserves; analyzing the background of non-government funding sources of social services; defining directions of further social solutions.

We consider the following issues as the most significant ones from a practical point of view: studying the possibility of expanding non-state sources of financing the social sphere, in some cases allowing to reduce the burden on the budgets of public entities and state extra-budgetary funds, reducing the role of the state in providing a number of social services, previously traditionally attributed to state (municipal), as well as the possibility of efficient use of available financial resources inside and between social sectors in the state (municipal) sector.

2. Theoretical, Empirical, and Methodological Grounds of the Research

Since there is still no legitimate definition of the social sphere, the official classifier of economic activity does not contain such a phrase, different authors utilize different concepts (social infrastructure, socio-cultural sphere or activities, social services) when describing a set of activities of the social sphere (Ivanova *et al.*, 2017; Keisidou *et al.*, 2013; Anikina *et al.*, 2016; Gasteratos *et al.*, 2016).

The definitions of social sphere, infrastructure, and expenditures' concepts available in the literature are not free of discussion. In the framework of this study, we will follow the economic approach, considering a set of industries that directly determine the standard of living of the population as the social sphere concept. Relying on the budget classification of expenditures, we refer the education sector, health, physical culture and sports, culture and art, and social protection of the population to this sphere. This interpretation of the social sphere is convenient for the study of social expenditures. We emphasize that we do not consider the housing and communal services, household services etc., as part of the social sphere (Andreeva, 2016a).

The functioning of the social sphere is directly related to social policy pattern the government chooses. We faced numerous studies on the analysis of various models including work on describing approaches to conducting a comparative analysis of social policies in different countries, highlighting their positive and negative aspects, examples of social policy evaluation approaches (Pechenkin and Fadeev, 2011).

The study of financial aspects of the development and implementation of social policy does not fade; its results are widely represented in the scientific literature. For example, rethinking social policy and society is the objective set by Deeming (2016), *"For scholars interested in the development of the social policy and the idea of a society as a whole, it is timely to begin the revaluation of the very notion of the social policy and society beyond the 'active' neoliberal policy paradigm"*.

Valentine (2016) argues that multiplicity has become important in social policy, and traces distinct trends in research and policy over the last half-century, and their convergence at particular moments. The rise of multiplicity as a trope for understanding social disadvantage has the effect of rendering social problems as more 'wicked' and intractable than they were previously understood to be. The strengths of this are in the sophistication of theoretical, multidisciplinary conceptualizations of disadvantage and the disadvantaged. There may be costs to this in policy responses to addressing people's needs.

Various authoritative scholars ask, *"After three decades of welfare state crisis, change and transformation can we still speak of welfare state regimes when looking at their outcomes?"* and then give a reasonable answer on the basis of an in-depth analysis of such results (Ferragina *et al.*, 2015). Russian scientists emphasize the danger of *"identified trends in the development of the budget system of Russia indicate narrowing human-centricity of the Russian budget model and pose a threat to the implementation of constitutional provisions on the sociality of the state"* and make conclusion on *"the necessity of expanding the social orientation of budgetary policy"* (Seleznev *et al.*, 2016).

A complete study of innovation processes in the social sector of Russia was carried out by Morozov and Taskaeva (2016) considering the need to reform social policy, revise the list and scope of social obligations of the state, the ones requiring innovative solutions in the social sphere. We see this idea in the works of numerous Russian authors. Thus, they discuss the problem of reduction in budgetary expenditure as one of the priority directions in economic development and social stability of the Russian Federation being in an unfavorable geopolitical situation. They propose a set of measures to reduce the social spending in the Russian Federation, including the pension reform improvement, better targeting of social transfers and subsidies, social institutions network optimization (Danilina *et al.*, 2017). The same view is held by Khmelnitskaya (2017) who has analyzed the social budget of Russia.

3. Results

The social sphere simply cannot exist without proper state financial support. Providing decent quality of state and municipal services is an extremely difficult task. At the same time, it is necessary to find a balance between the objectives of state financial and social policy, contradicting each other from time to time.

Financial policy is one of economic policy directions with a specific purpose. Financial tools can be used to achieve the goals of economic policy and ensure its social direction.

It is necessary to evaluate the effectiveness of financial resources' utilization and determine how effectively financial resources are used in the process of developing and implementing state financial policies resulting in both dissipation of financial resources and decrease in meeting social needs that tend to grow continuously, that is proved by the world practice. The indicators of the improvement of the macroeconomic situation and the standard of living of citizens turn to be indicators of financial resources utilization effectiveness. Generally, they determine the further directions of production development, the structure of the use of financial resources, their social orientation.

Among the general objectives of financial policy we should note the reduction of inflation rate, achievement of macroeconomic stabilization, etc. to serve the one goal: to ensure the welfare of the entire population, which can be indicated through reducing the below-subsistence population rate. Financial policy in the social sphere should represent the activity of state authorities at all levels, aimed at achieving the goals and objectives of social policy via appropriate financial framework (Gordin, 1998).

When discussing the financial aspects of social sphere development in Russia, we should highlight the definition of social policy aimed at ensuring the basic constitutional rights of citizens and harmonizing the basic interests and needs of various categories of citizens with the strategic interests of society's prosperity. We agree with the opinion that social policy is *"the sphere of the state's policy in relation to the living standard formation, the reproduction of human capital, the provision of social services, and the development of social infrastructure at the federal, regional, and local levels"* (Babich and Pavlova, 2000).

However, an effective model of social policy has not been developed in the country for even a quarter of a century of reforms and legislative changes. There is *"a strong dissonance between the statements of the government, which is social according to the Constitution, and the real practice of the social sphere"* (Poplavskaya, 2015). Social policy must be deeply reinterpreted in general and in the context of its individual branches. Its goals and tasks should be aimed not only at solving current problems, but also to the future. No mistakes and deadlock decisions.

All developed countries worldwide are experiencing difficulties in resolving the task of controlling the total amount of public expenditures along with the need for a steady increase in social spendings. The growth of government social spending over the past 20 years for OECD countries exceeded the growth of GDP. We could highlight a number of factors that entail the inevitable growth of social spending.

The first one is increase the cost of social services in both public and private sectors due to the introduction of new technologies and other reasons. The second one is medical and demographic problems (population aging, low birth rate, population decline, morbidity), leading to the impossibility of a normal long-term generations' replacement.

According to Eurostat forecast, the aging of the society will intensify: in 2014, the share of people of working age accounted for 65.9% of the EU population, and persons of 65-79 years old accounted for 13.4%, 80 years and over accounted for 5.1%. The share of working age people will decrease to 56.2%, by 2080, the share of persons 65-79 and over 80, on the contrary, will increase to 16.4 and 12.3%, respectively. The forecast for 2016-2031 in Russia is generally similar. When analyzing the data, in 2017 nearly 56.7% of total population were in the working-age category, nearly 53.6% would be of working age in 2031, and the share of people older than working age will increase from 24.9 to 28.7%. As for the ratio of people of working age and older, it was 3.56 to 1 in the EU countries in 2014 and will reach 1.95 to 1 by 2080. In Russia, in 2017 this ratio was 2.3 to 1, in 2031 the ratio will be 1.86 to 1, that is significantly lower at least in the starting point.

The third factor is the adoption of measures that neutralize the consequences of the first two factors to ensure the stability of society, regardless to the phase of the economic cycle (public policy in the field of demography, migration, education, health, social protection, including pensions, etc.). In Russia, there is a program for providing maternal (family) capital in order to improve the demographic situation; for the years of its implementation, certificates of 7.5 million families have been issued. The country's leadership is looking for opportunities to continue the program, although there is no indexation of this in terms of capital.

The fourth factor includes phases of economic crises leading to a decrease in budget revenues, if necessary, to finance anti-crisis actions including supporting citizens particularly affected by its consequences (temporarily lost their jobs, socially vulnerable, etc.).

In accordance with the anti-crisis action plan of the Government of the Russian Federation, additional social protection measures were envisaged to ensure employment of the population, maintaining current level of state (municipal) services (guarantees) in a number of directions (providing drugs for certain categories of persons, technical means of rehabilitation, support to producers of medicines, assistance to certain categories of borrowers for mortgage housing loans, etc.).

The factors noted before, prompt the search for new models of combining sources and mechanisms for social sphere funding. The choice of the social sphere funding sources' ratio depends on the national and historical features of building market frameworks. The most important indicator is the share of government spendings

relating to GDP. In 2013, in Russia this ratio was 38.67%, in the United States 35.72%, in Australia 37.04%, in Canada 39.38%, in Japan 40.27%, in the EU countries 46% (on average). From the state social expenditures point, the EU member states are leading with 28% of GDP, followed by Japan 23%, Russia 22%, the United States 19%, Australia 18.5%, Canada 17.5%. In terms of total health expenditure, the US is leading 16.21%, and the share of private sources there is 8.34% higher than in other countries. The share of private spending in other countries is much less; their ratio of total and private spending is as follows: Japan 9.99% to 1.75%, Australia 8.55% to 2.71%, Canada 10.38% to 3.12% (EU, 2015).

Searching for its own model, Russia relies on the achievements of the Soviet period namely the universal free social services provision through their budgetary financing (on a residual basis, as before). We consider the realization of this principle in the process of building the Russian market economy as an important breakthrough. Otherwise, it was impossible due to a social explosion in the case of a sharp refusal.

Undoubtedly, in the situation of insufficient budget resources, low level of financial management, lack of standards, the quality of social services in Russia is far from world standards, but the range is wider than in developed countries. We consider the directions of the solution of the urgent problems, the most realistic ones for the response to the modern challenges of financial policy in the social sphere.

The activation of the private sector is an extremely promising way of developing the social sphere. There are two main directions. First, in Russia, "green light" is given to the access of socially-oriented non-profit organizations to the provision of state and municipal services. President Putin at the forum "Society" (November 2-3, 2017, Moscow) noted that *"several hundred non-commercial organizations have been added to the regional social service providers' registry. Of course, this is just the beginning. We need thousands of such organizations across the country, taking the responsibility to act as a reliable partner of the state in the social sphere"* (Putin, 2017).

The second is the subjects of small and medium-sized businesses (as a rule) called social entrepreneurs (Lundstrom *et al.*, 2014). Social entrepreneurship is targeted at the intersection of traditional entrepreneurship and charity; it is an activity based on the principles of entrepreneurship with an orientation toward solving social problems. Social entrepreneurship is focused not on profits but on the mission.

Sources of financing for the activities of social business structures represented by a wide range of organizational and legal forms (individual entrepreneur, limited liability company, non-profit organization, etc.) are: private funds; grants, including state, international organizations, various domestic funds, agencies, etc.; state subsidies; loans of banks, specialized funds, microfinance organizations; venture philanthropy.

An active work to popularize the social business is carried out in Russia. Moreover, we highlight its diverse support by the authorities of all levels in general, and specially created organizations in particular; the non-profit organization "*Agency for Strategic Initiatives to Promote New Projects*", which is focused on the development of initiatives of medium-sized businesses focused on the social sphere; Foundation for Regional Social Programs "*Our Future*", which provides financial and advisory support; association of "business angels" etc.

Foreign practice has proved the effectiveness of direction like the development of state (municipal) private partnership. Russian specialists offer the most promising options for public-private partnership in the social sphere; the creation of a modern infrastructure for the provision of medical and educational services, the development of voluntary social (including pension, medical) insurance, etc. (Bludov, 2012; Matraeva *et al.*, 2016). We believe that this mechanism is most applicable at the present stage.

A certain potential for the development of the social sphere is presented by the social programs of big business within the framework of additional support and protection of own workers and their families and the charity as well. Social responsibility of business includes the support of public projects in the sphere of culture, science, education, sports, propaganda of a healthy lifestyle.

At the same time, a work should be done to improve the efficiency of public expenditures and their prioritization. First of all, it is necessary to verify benefits and compensation to citizens. Russia is the only country in the world with the number of social support measures exceeding 150 items including cash compensation and benefits in kind. Some of them are provided without verifying the real need. This is not justified in conditions of economic instability.

A new procedure for granting social benefits was introduced on January 1, 2016 in Russia, however, the Unified State Information System for Social Security was introduced only on January 1, 2018, to register beneficiaries of all categories to bring savings of 10% of social fundings. We consider this an extremely promising direction in the development of the social protection system for Russian citizens. The work on the introduction of results-based budgeting in the management of public finances, started in 2004, required a radical review of the approaches to planning, financing and monitoring public expenditures including on the social sphere. For social organizations, economic efficiency is secondary to the social one. The introduction of new mechanisms was a bold direction of the budget reform, but the experience of foreign countries proves that the reformers achieved more results in the face of economic difficulties and the need to save public funds. State programming becomes a key focus of state authorities, evaluating the feasibility of the planned activities, expected results, benchmarks in certain state social policy area.

Implementation is impossible without an adequate system of state financial control. When improving state financial control in the social sphere, it is necessary to shift the emphasis on supervision over the conditions for the provision of services in the private sector (pricing, quality, safety); to develop legislation, standards, rules for social services and their compliance, applying measures of responsibility in case of violations.

4. Conclusions and recommendations

Modernization of the social sphere is an urgent measure and can be effective only in conditions of economic growth, leading to the adequate financing of the social sphere. In this regard, it is required to create the appropriate legal, organizational, and financial preconditions for both state and non-state social organizations and citizens to maintain the necessary standard of living independently at the expense of their own incomes.

One should deepen the diversification of social organizations in various forms of ownership, the conditions for the provision of social services, the orientation of services to certain categories of the population or life situations that require attention from the authorities.

The market model of social policy is characterized by a differentiated approach to certain population groups, and even more correctly, targeted to each specific household, therefore for able-bodied citizens, the role of the state should be reduced to creating conditions for increasing their employment and developing independence in financing social services, and state support should be provided in case of illness, accidents, old age, and loss of employment.

Since the financing of the social sphere is a multi-channel one, including a number of sources; funds of budgets of all levels, state extra-budgetary funds, voluntary medical, social and pension insurance, enterprises, institutions and organizations, personal funds of citizens and other sources not prohibited by law, it is extremely important to assess the financing potential (taking into account the shadow economy), and to develop the adequate financial mechanism (Andreeva, 2016b).

An essential condition for the development of social sectors is the prosperity of the economy as a whole, but specific changes are also required in the approaches to the formation and use of the financial resources of the social sphere as an independent sector of national economy (Romanova *et al.*, 2017). The solution of these problems is determined by the need to transform the financial mechanism of the social sphere. The urgent need of today is searching for possible solutions to the escalating conflict between the inevitability of adopting austerity measures in the interests of macroeconomic stabilization, the balance of the budget system and the goals of long-term social policy.

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