

The Federal Budget Appropriations Impact on Social Policy Effectiveness in the Russian Federation

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Abstract

The effectiveness of state social policy is determined by creation of conditions for a decent living standards and accessibility of personal development. The article highlights the consideration of effective social policy principles which should take into account the social and economic development of the country. Implementation of such principles takes place under the existing budgetary restrictions and the necessity of public investment allocation among different spheres and sectors. The article pays attention to the issue of social policy funding through budgetary allocations for social protection of citizens in the Russian Federation. The paper analyzes the dynamics of federal expenditures on social programs in the period of 2015-2018 and examines the role of the federal budget in achieving the high level of social development.

Keywords

Effective Social Policy, Federal Expenditure on the Social Program, Social Investment, Social Responsibilities, Social State, Human Potential, Budget Appropriation

Received: July 10, 2015 / Accepted: August 15, 2015 / Published online: September 14, 2015

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1. Introduction

The modern challenges put Russian society in front of an urgent need to substantiate the principles of effective social policy. The main goal of such principles is the quality of life improvement. The quality of life has a direct impact on the human potential. National projects and relevant regional programs make it possible to develop human potential, for example, through the provision of access to the consumption of public goods such as education and medicine. The implementation of social policy assumes the legislative setting and financial support of the state social obligations execution. Social obligations of the state can be defined as a constitutional or legislative complex of social (public) goods that the State undertakes to make available to its citizens. National government guarantees a certain range of these goods to be free of charge to the entire population or specific groups. Benefits which are guaranteed to community include,

for example, active longevity, access to resources providing a decent standard and quality of life, obtaining and updating professional skills to adapt to the changing conditions of production. They are formed at each stage of human development and transformed, taking into account the social and economic development of society. Such benefits must be allowed by the budgetary funds to all individuals, regardless of their place of residence and socio-demographic characteristics.

Effectiveness of social policy is determined by the growth in life expectancy, reduction of mortality and morbidity and a number of other factors, the most important of which is the growth of welfare. Level of social welfare depends on the distribution of wealth in society. Thus, well-being of individuals determines social welfare. The States use different measures to regulate the distribution of public wealth and resource allocation in society. Such measures, for example, include methods of direct regulation or

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administrative measures, such as the indexation of income, compensation for certain costs and transfer payments. Currently indirect methods of control are used more often. Such measures include tax policy which is a mechanism for accumulation of funds. These funds are required to implement government tasks at a certain stage of its activity. In the state budget funds are concentrated through taxes and then these funds are directed to the solution of social problems.

It is important to determine the possible impact of the state budget for the differentiation of income and then consider the various approaches to the definition of beneficiaries of government programs. It is important to determine the list and dimension of social supporting programs according to indicators of economic development. The decrease in income inequality affects the size of the state budget, depending on the taxation of the population. Using the tax mechanism the state can create the necessary conditions to accelerate economic development, to increase the turnover of capital in the most perspective sectors, to define progress in unprofitable but vitally necessary areas of production and services. Thus, such tools as tax policy, the access to the consumption of public goods, the system of social benefits realized by social programs, are measures of state influence on the social development of society. These measures are implemented through the mechanisms of fiscal policy. In this connection, the budget allocation between different areas and federal programs, the use of various policy instruments plays an important role in achieving high quality of life, which reflects the effectiveness of social policy measures. The level and quality of life of the population are the indicators of the effectiveness of economic and social policy, in particular regulatory policy of income and expenditure.

2. Economic Foundations of Effective Social Policy

Economic efficiency of social policy should be considered in several aspects. It is necessary to strike a balance between the allocation of funds for human development and for other spheres and areas of state investment in order to avoid crowding out of other public investments. Also it is important to maintain a balance in distribution of government expenditures between different social programs: cash benefits, health care and sports, education and culture, training and retraining, employment services, etc. The Organization for Economic Cooperation and Development has established a base of social expenditure, which contains statistics on public and private social expenditure. All information in this database is presented with breakdown by social policy areas - old-age, survivors, incapacity-related

benefits, health, family, active labour market programs, unemployment, housing and other social policy areas¹.

An important factor of social policy in any country is to avoid excessive income differentiation between the richest and the poorest citizens. The state in this case takes the redistribution function. The existing system of social protection in the countries, which belongs to the Organization for Economic Cooperation and Development, allows achieving more equal income distribution. Impact on income distribution is possible through public expenditure and private spending. According to the research there is a negative correlation between public social expenditures and income inequality, meanwhile, there is no statistically significant relationship between private social spending and income inequality and income redistribution². For effective income policy the government should take into consideration not only the degree of income inequality, but also its structure, which largely depends on the propensity of the population to consume and save. Individuals have different amounts of resources. Consequently, those who have more human, physical and financial capital are in a better position to give a higher return. Income growth and the increase in purchasing power of the population characterize not only the standard of living, which creates conditions for economic recovery, but also the growth capacity of the domestic market. There are different approaches to the explanation of differences in income levels, but they have some common factors that affect the amount of income, received by the individual. This is the value of the property, owned by individuals, and the magnitude of the citizen's current income, which depends on several factors, for example, education and training, the differences in abilities, discrimination, professional tastes and willingness to take risks.

Policy, pursued by the State in order to mitigate social inequality, can be carried out both budgetary and extra-budgetary methods. The need for State to ensure international competitiveness leads to a reduction of direct state involvement in social programs, i.e. production and social services are provided by private organizations, while preserving the state's participation in the financing of these programs. Nowadays increase the contribution of workers human potential in the competitiveness of enterprises. This causes an increase in financing of training and staff development by businessmen. The government in order to implement the social protection system sets the minimum wage, collects taxes and provides transfer payments to the population. Thus, an important task is to determine the subsistence minimum and the poverty line, and to bring the

1 OECD Social Expenditure Database // <http://www.oecd.org/social/expenditure.htm>

2 Goudswaard K. P. and Caminada K. Private social expenditure and the redistributive impact of the welfare state. *Private Macht im Wohlfahrtsstaat: Akteure und Institutionen*, Seismo Verlag, Zürich, pp. 188-204. 2014

population level of income to the guaranteed minimum using the social assistance programs. The complexity of these problems lies in ambiguity and difficulty of obtaining reliable information on the real incomes of the population. Regulation of income differentiation is possible by means of taxes. Tax policy of the state, which is carried out through a system of budget's incomes and expenditures, has an important impact on the living standards of the population. Many OECD governments pursue goals of social policy through the tax system. They use two kinds of tax policy measures: reduction in the taxation of specific income sources or types of households and replacement of cash benefits or stimulation of the private benefits provision³.

Currently, the countries, that implements the principles of the social state (which involves ensuring a living wage and minimal social guarantees for all citizens), are the Group of Seven, the Scandinavian countries and Finland, the Netherlands, Belgium, Switzerland, Austria, Greece and Portugal, the countries of Central and Eastern Europe (Hungary, Poland, Slovakia, Czech Republic), the Baltic States and the Persian Gulf countries, in which the principles of the social state applies only to residents. Elected model of national economic and social development has a significant influence on the level of the tax burden. In countries with socially oriented economy (social democratic model), this level is more than 50% of GDP, in countries with monetary principles of development (the liberal model) it is less than 30% of GDP⁴. The higher tax rate has become a payment for social stability.

The financial and economic crisis of 2008 - 2009, which led to a significant deterioration in the quality of life, demanded the rapid formation of a global governance system. The leading countries engaged in the development of this system in the framework of the Group of Twenty. Within the framework of the Organization for Economic Cooperation and Development, there are three basic models of social policy - social-democratic, liberal and corporate. The Social Democratic model is typical for the Nordic countries. For decades social policy in these countries has been defined by the political union of the workers left-wing parties and parties representing the interests of small farmers. Social policy is aimed at providing a wide range of state social services for all citizens while ensuring full employment. The corporate model (Germany, Austria and France) assumes the development of a social insurance benefits system, differentiated by type of work. It provides the integration of the trade union movement and the state. The liberal model

(Anglo-Saxon countries) assumes the minimum necessary public support of the lower classes. Today's response to the transformation of the social state concept in the European Union has become the concept of «social quality», which was proposed by W. A. Beck, L. J. G. van der Maesen, A. C. Walker. Social quality is «the extent to which citizens are able to participate in social and economic life for the growth of well-being and their individual capabilities»⁵. In order to determine the conditions that are necessary for achieving the maximum level of social quality of life four blocks of indicators are analyzed: socio-economic security, social inclusion and equal opportunities, social cohesion and social empowerment⁶. The concept of social quality combines the individual's quality of life and the quality of social relations in society into a single model.

3. Indicators of the Social Protection System in the Russian Federation

The Russian Federation was proclaimed as a social state by the Constitution of the Russian Federation in 1993. Policy of the social state is aimed at creating conditions for a decent living standards and free development rights, the political and legal regulation of the society life on the principles of humanism, the implementation of socio-protective functions, and creation of conditions for the development of civil society. The Russian Federation Government Decree № 98-p from 27.01.2015 «The plan of priority measures to ensure the sustainable economic development and social stability in 2015» provides social stability through the promotion of changes in the structure of employment, social support of citizens, measures in the field of health, providing drugs and medical products.

The system of social protection is implemented in the Russian Federation and the legislative acts that define lower-income social groups and the State's obligation to support their living standards are approved. The basic social guarantees, which were established in the Russian Federation, include the following: the minimum wage, amount of the basic part of labour pensions for old age, disability and loss of breadwinner, scholarships and a number of social security benefits. Social benefits also include, for example, the extraordinary allowance for women who have been registered in the hospital in the early stages of pregnancy (12 weeks), birth certificate, one-time payment on

3 Adema W., Fron P. and Ladaique M. Is the European Welfare State Really More Expensive: Indicators on Social Spending 1980-2012. OECD Social, Employment and Migration Working Papers. 2011, №124

4 Kadomtseva S. V. Financial Support for Social Policy and Economy. Social Policy and Social Partnership. №1, pp. 6-12, 2012

5 Beck W.A., Van Der Maesen L. J. G., Thomése F., Walker A. C. (eds). Social Quality: A Vision for Europe. The Hague, London/Boston: Kluwer Law International, 2001

6 Laurent J. G., Van Der Maesen, Walker A. Social Quality From Theory to Indicators. Palgrave Macmillan December 2011

the birth of the child, the monthly payments for a child, a state certificate for guardian, etc. Social assistance is provided through the targeted support of certain groups of citizens. An important role in the financing of social development in the Russian Federation plays the federal budget. Social assistance programs are financed from federal and regional budgets and the budgets of local governments (municipal budget). In the recent years occurs a gradual decline in the proportion of people with incomes below the subsistence level. The share of expenditure on social and cultural activities in the GDP amounted 21.4% in 2012. There was growth of expenditure on social and cultural activities in the GDP by 0.8 percentage point in comparison with the previous year. In 2012 share of the population with incomes below the subsistence minimum decreased by 1.8 percentage point in comparison with the previous year⁷. The size of social assistance benefits are graded according to the number of family members and the amount of its current mandatory costs. The size of social assistance benefits make up the difference between the established subsistence minimum and family income. Taxes and insurance payments constitute funds for social programs financing. Tax exemptions and deductions are also mechanism for the implementation of social policy. For example low-income families are exempt from income taxation.

The subsistence minimum in Russia is intended to assess the level of living. It is considered during the development and implementation of the federal social programs. The amount of the subsistence level per capita across the Russian population and the subjects of the Russian Federation is determined quarterly on the basis of the consumer basket and the federal statistics data on the level of consumer prices for food, non-food goods and services, the cost of mandatory fees and charges. The subsistence minimum is used as the definition of the poverty line. The benefits which are paid to low-income segments of the population have to provide a living wage. According to the Russian Statistical Yearbook during the last years the minimum subsistence level per capita in Russia was growing. It was 3847 rubbles in 2007 and reached 6510 rubbles in 2012. Government increases the minimum wage of the working population to the subsistence level gradually. In 2007 it was 3679 rubbles and increased to 5205 rubbles in 2012. Annually the size of the living wage has grown by an average of 12% since 2007. Decline of its level was observed only in 2012. The minimum amount of the scholarship increased from 200 rubles per month in 2001 to 1100 rubbles per month in 2013 for students who have studied full-time in the federal public higher education institutions, which have the state accreditation.

The main social and economic indicators, which are used to assess the level of living, include the following: the dynamics of the actual final consumption of households, average per capita income, average monthly nominal wage of employees in the economy, real wages, subsistence minimum, the number of people with incomes below the subsistence minimum. The Table 1 shows the dynamics of these indicators in the Russian Federation.

Actual final consumption of households was gradually growing in the period under consideration, reflecting the positive trend in living standards of the population. Average per capita income was also growing, and it totaled 23058 rubles per month in 2012. The average monthly nominal wage of employees in the economy increased in 2012 by 14% of the previous year. Ratio of the average nominal monthly gross wages and the average per capita income is a kind of indicator of state's income policy. It shows that the level of wages was above the average per capita income. Growth of the real disposable income of the population slowed in 2011, but in 2012 growth increased and totaled 104.6% of the previous year. The amount of the subsistence minimum was 6510 rubles per month and increased by 5 times since 2000. However growth of the indicator was slowing down, measured as a percentage of the previous year. It should be noted that there were 15.6 million persons with incomes below the subsistence minimum in 2013. This value was equal to 10.9% of the total population. This indicator significantly decreased in comparison with the amount of 2000, when it was 29% of the total population.

Dynamics of the monetary incomes structure is an important characteristic of the effectiveness of government policy. According to the Russian Statistical Yearbook the main source of household's income is the value of wages. Its share in the last few years is quite stable and it is more than 60% of household's income. However, it should be noted that it slightly decreased after the crisis of 2008, which also had a negative impact on income from business activities. These downward trends were offset by growth in the share of social payments and property income. In 2012, there was a positive dynamics of wages share in the structure of population incomes. There is income differentiation in the Russian society, the major share of revenues - 47.6% receive 20% of the population. It should be mentioned a weak downward trend in the share of income received by a group of people with the highest incomes, it means a reduction in the existing differentiation in recent years. It is necessary to remember about the existence of wage differentiation across sectors. In a market wage is the price of labor, depending on supply and demand in the labor market. The differences in labor demand, in labor supply, in the labor market structure affect the wage in different fields.

⁷ The Federal State Statistics Service// <http://www.gks.ru>

Table 1. The dynamics of the social indicators in 2000-2012.

	2000	2005	2010	2011	2012
Actual final consumption of households (at current prices), bln. rubles	3 813	12 455	27 962	32 187	36 294
per capita, rubles.	26 014	86 784	195 774	225 145	253 426
as a percentage of the previous year (in comparable prices)	105,9	110,8	104,3	105,3	105,8
Average per capita income (per month), rubles	2 281	8 088	18 958	20 780	23 058
Real disposable income of the population, the percentage of the previous year	112,0	112,4	105,9	100,5	104,6
The average monthly nominal wage of employees in the economy, rubles	2 223	8 555	20 952	23 369	26 629
Real wages, percentage to previous year	120,9	112,6	105,2	102,8	108,4
Subsistence minimum (average per capita): rubles per month	1 210	3 018	5 688	6 369	6 510
as a percentage of the previous year	120,0	118,6	110,4	112,0	102,2
The number of people with incomes below the subsistence minimum: million persons	42,3	25,4	17,7	17,9	15,6
percentage of the total population	29,0	17,8	12,5	12,7	10,9

Source: The Russian Statistical Yearbook. 2013: Stat.sb./Rosstat. - M., 2013.

4. Federal Budget Expenditures on the Social Programs in the Russian Federation

The major part of government social programs, which are aimed at improving the community quality of life in the Russian Federation, are carried out within the direction «New quality of life», which includes 12 programs. Among these programs the important places occupy programs in health, education and social support. According to the draft

guidelines of budgetary policy for 2016 and the planning period of 2017 and 2018 it is planned to increase the federal budget expenditures from 15 215 billion rubles in 2015 to 16 598.6 billion rubles in 2018. Expenditures for implementation of the government programs amount 8289.7 billion rubles in 2015. This is 54.5% of the federal budget total expenditures. Funding for the direction «New quality of life» is about 40% of the federal budget total expenditures for the implementation of the state programs for the entire period 2015-2018. (see Table 2)

Table 2. Financial support of the government programs implementation in 2015-2018. (bln. rubbles).

Designation	2015		2016		2017		2018	
	bln. rubbles	bln. rubbles	%	bln. rubbles	%	bln. rubbles	%	
Federal expenditures, total	15 215,0	15 865,0	104,3	16 650,5	105,0	16 598,6	99,7	
Expenditures for the implementation of government programs, total: <i>including directions:</i>	8 289,7	8 312,1	100,3	8 266,0	99,4	8 317,1	100,6	
I. New quality of life (12 programs)	3 321,6	3 285,5	98,9	3 139,7	95,6	3 151,8	100,4	
II. Innovative development and modernization of the economy, without the closed part (17 programs)	2 167,4	2 046,7	94,4	2 053,1	100,3	2 025,7	98,7	
III. National security, without the closed part (1 program)	1,3	1,3	100,0	1,2	92,1	1,2	100,0	
IV. Balanced regional development (4 programs)	658,2	680,5	103,4	716,4	105,3	707,7	98,8	
V. Effective state (4 programs)	1 268,2	1 347,5	106,3	1 386,0	102,9	1 460,7	105,4	

Source: Project «Main directions of budgetary policy for 2016 and the planning period of 2017 and 2018»// Ministry of Finance of the Russian Federation <http://www.minfin.ru>

Significant amounts of the federal budget funds which are allocated to the direction «New quality of life» are necessary for development of effective social policy. The main aim of such policy is to improve the quality of life and human development, to reduce the excessive income differentiation. However, it is important to note a planned decrease of the

financial allocations for the direction «New quality of life» from 40.1% of the federal budget total expenditures for the implementation of the state programs in 2015 to 37.9% in 2018. Considerable amounts of budget funding are also allocated to the directions «Innovative development and modernization of the economy» and «Effective state». Three mentioned directions, according to 2015, in total, estimated

more than 80% of the total expenditures of the federal budget for the implementation of the government programs. The direction «Innovative development and modernization of the economy» includes programs, which are aimed at economic and technological development of the country, the development of individual industries and facilities. The most significant financial resources of the direction «Effective state» are sent to the program «Public Financial Management

and regulation of financial markets». For this program it also planned the most significant growth during the period 2016-2018, which was affected by the increase of the federal budget expenditures for the maintenance of the state debt.

The federal budget allocations for the implementation of government programs for the direction «New quality of life», during 2015-2018, are presented in the Table 3.

Table 3. Financial support of the government programs implementation «New quality of life» in 2015-2018. (bln. rubbles).

Designation	2015	2016	%	2017	%	2018	%
	bln. rubbles	bln. rubbles		bln. rubbles		bln. rubbles	
New quality of life (12 programs)	3 321,6	3 285,5	98,9	3 139,7	95,6	3 151,8	100,4
Development of Health	255,6	255,8	100,1	276,4	108,1	249,0	90,1
Development of Education 2013 – 2020	422,9	433,5	102,5	465,5	107,4	468,7	100,7
Social support of citizens	1 181,5	1 210,5	102,5	1 155,2	95,4	1 251,5	108,3
«Accessible Environment» 2011 - 2015	38,0	0,0	0,0	0,0	0,0	0,0	0,0
Providing affordable and comfortable housing and communal services for Russian citizens	100,6	77,8	77,3	48,3	62,1	34,3	71,1
Promoting employment	72,9	77,8	106,7	67,1	86,2	67,0	100,0
Provision of the public order and actions against the crime	827,6	815,2	98,5	708,0	86,9	708,4	100,0
Combating illegal circulation of drugs	30,0	29,7	99,0	26,5	89,2	26,5	100,0
Protecting the population and territories from emergency situations, fire safety and safety on water objects	199,6	188,1	94,2	193,5	102,9	179,5	92,8
«Development of Culture and Tourism» 2013-2020	94,5	95,9	101,5	89,2	93,0	89,2	99,9
«Environmental protection» 2012 - 2020	30,2	34,3	113,5	33,1	96,4	33,0	99,7
Development of physical culture and sports	68,3	66,8	97,9	76,8	114,9	44,7	58,3

Source: Project «Main directions of budgetary policy for 2016 and the planning period of 2017 and 2018»// Ministry of Finance of the Russian Federation <http://www.minfin.ru>

Among the programs of the direction «New quality of life», the main funds are allocated on social support of citizens and provision of the public order and actions against the crime. Funds which are allocated to these directions in 2015 totaled 1 181.5 billion rubles and 827.6 billion rubles respectively. These programs in total make up 60.5% of budgetary appropriations of this direction. It's expected the growth of expenditures of the federal budget for providing social support for citizens in the medium term. The exception is spending of 2017 with a planned reduction of this direction financing to 95.4% of the previous year. Within the framework of the government program «Social support of citizens» in order to create an effective system of social protection it is suggested to extend the application of the requirement principle and address approach. It includes, for example, exclusion from the number of social support recipients for housing and communal services the family members with associated benefits; replace the payment of compensation to the citizens exposed by radiation to the provision of additional services within the framework of compulsory health insurance; ensuring the transparency of social support (including transparency of information about specific recipients), etc. During the period 2015-2018 a gradual decrease is planned for provision of the public order and actions against the crime. In 2018 financial support of this program will be 85.6% of the level in 2015.

The most significant increase of financial support in 2018 related to 2015 is planned for the program «Development of Education 2013 – 2020». In 2018 it is expected to have approximately 15% of all direction costs. It is expected that implementation of the program «Development of Education 2013 – 2020» will ensure the functioning and target development of the federal educational institutions network in accordance with the future tasks of the Russian society and the economy. These tasks include the movement to the standard costs based model as the minimum size of costs for the implementation of educational services; optimization of the educational organizations which are the recipients of budgetary allocations from the federal budget. Taking into account the demographic changes it is necessary to consider a balanced reduction of the control figures for admission to higher education study programs which are financed from the federal budget.

Financial allocations for the program «Development of Health» is approximately 8% of the funds allocated to the direction «New quality of life» in 2015. It is planned a gradual increase of the program costs in 2016-2017 and their decrease in 2018. Within the framework of the government program «Development of Health» it is planned to complete the transition to insurance principles of payment for medical services. Also it is scheduled the inclusion of high-tech

medical assistance in the basic program of compulsory medical insurance; the improvement of the drug provision system; the optimization of the list of vital and essential medicines, the list of medical products, guaranteed by the program; the specification of the state free medical care program on the basis of its balance; optimization of the size and structure of the medical staff while maintaining the accessibility and quality of health care throughout the territory of the Russian Federation.

5. Conclusion

Formation of an effective social policy is associated with the need of implementation the multivariate analysis of the social sphere state regulation measures. Currently in the Russian Federation it is the ongoing process of the effective model of state social policy formation. This process includes the constant improvement of the state programs and mechanisms of social protection measures. The economic results of the country's development in the period from 2007 to 2013 indicate the presence of both positive and negative trends. The GDP growth, growth in real disposable income, payroll increase is accompanied by weak reduction of social differentiation. According to the rating of economies in terms of gross national income per capita at the end of 2012, calculated by the method of the World Bank, Russia has moved from the category of countries with a GDP per capita income «above average» in the category of «high» income (from 12 616 dollars and above per capita). However, a significant differentiation of the population and regional differentiation makes it difficult to conduct a unified social policy. The priorities of the social policy in Russia include the following: to increase wages and pensions, to reduce number of poor people, to increase real incomes, to increase the level and quality of life.

The state uses the mechanisms of fiscal policy for the implementation of social protection programs, providing subsistence minimum for the population and realization of income redistribution. Targeted social support is particularly important in social policy. Social payments allow families in need to meet the minimum requirements. Such measures allow maintaining the optimal relations between the incomes of the economically active population and disabled people through the mechanism of taxes and social transfers. However, the capacity of the state in the redistribution of income and supporting the needy individuals and households is largely limited. In this connection, social protection and social insurance is always accompanied by additional methods for increasing the standard of living, such as, for example, tax exemptions and deductions.

Social assistance programs which are financed from the

budget take a considerable place in the modern system of social protection in Russia. The federal budget is determined the volume of allocations on the major federal programs aimed at improving the quality of life. These programs play the role of indicators of social regulation effectiveness. Share of expenditures on social and cultural activities in GDP and share of social transfers in GDP in the last decade had the positive trend. Expenditures of the consolidated budget of the Russian Federation on social and cultural activities in 2013 amounted to 21.4% of GDP, while spending on social policy - 12.5% of GDP. According to the forecast values of the federal budget expenditures on social policy for the period of 2016-2018 will have a rather high level. Also it is projected the gradual increase in the level of expenditures for education and health, although the effectiveness of social policy in these areas depends on the implementation of planned modernization measures.

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