



Strategic decisions in budget policy: Economic efficiency and economic feasibility

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Abstract

The well-being of people directly depends on both the economy of the state and the personal economy, the correctness of budget management. Therefore, it is quite understandable that all groups and categories of society are interested in economic processes. Interest, which, in today's changeable world, must be considered a request, does not decrease and requires clarification of categories that evaluate the economy and bring it to the right strategic decisions in budget policy. The economic categories of performance evaluation include economic efficiency and economic feasibility, the essence and difference of which, using specific examples, is evidently presented in this article.

Keywords: strategic decisions, economic categories, budget policy, economic feasibility, economic efficiency, regional budget, expected effect.

For citation:

Umgaeva O.V. (2022). Strategic decisions in budget policy: Economic efficiency and economic feasibility. *Strategic Decisions and Risk Management*, 13(4): 346-350. DOI: 10.17747/2618-947X-2022-4-346-350. (In Russ.)

预算政策中的战略决策：经济效率与经济可行性

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摘要

人民的福祉直接取决于国家经济和个人经济，预算编制的正确性。因此，我们可以解释社会所有群体和类别对经济过程的兴趣。在当今瞬息万变的世界中，对经济的兴趣成为一种不会减少的要求。有必要澄清评估经济并在预算政策中做出正确的战略决策的类别。评价结果的经济类别包括经济效率和经济可行性。本文通过具体实例介绍了它们的本质和区别。

关键词：战略决策，经济类型，预算政策，经济可行性，经济效率，地区预算，预期效果。

供引用：

Umgaeva O.V. (2022) 。 预算政策中的战略决策：经济效率与经济可行性。战略决策和风险管理。13(4)：346-350。 DOI：10.17747/2618-947X-2022-4-346-350。（俄文）。

The state of the modern world economy, the economy of Russia, leads to an understanding of the strategic importance of pursuing a competent and rational budgetary policy of the state, especially in the expenditure side of budget execution at any level. The issues of economic efficiency and economic feasibility were considered by the founders of the economic theory. J. M. Keynes [Keynes, 2015], G. Emerson [Emerson, 1992], W. Petty [Speranskaya,

1987] and others wrote about the effectiveness of their solution in relation to various economic situations. The category of economic efficiency is revealed and systematised in modern works [Abalkin, 1971; Alle, 1998; Smirnov, 2007; Zhemchugov, Zhemchugov, 2013; Shabashev and Batievskaya, 2014; Kriklivets, Sukhomyro, 2019] and many others. According to scientific and practical logic, the entire business

community is involved in the calculations of these two categories and, of course, the state should be involved in search of the optimal use of resources and budget funds to meet the needs and improve the quality of life of its citizens.

Nevertheless, an analysis of the implementation of budgetary policy at the regional level in the sectoral sphere indicates the presence of numerous examples of the absence of a theoretical approach in the implementation of state tasks. Illiterate and unprofessional, and sometimes even criminal disregard of the legislation, which provides for strict observance of budget parameters, leads not only to misuse, theft, but also to inefficient and inappropriate use of budgetary funds.

In order to avoid the penalties that follow for the above violations, managers of budget funds who do not have the proper qualification, professional, educational training, sometimes simply sabotage state tasks, not fulfilling them and returning money to the budget.

For example, funds allocated for the purchase of apartments for orphans of the Republic of Kalmykia were returned to the federal budget. “In 2020, the republic received additional subsidies from the federal center in the amount of 50.1 million rubles. Of these, 48.4 million were never used. The reason is simple: there are no such apartments on the secondary market that would meet the requirements of the legislation in terms of comfort for orphans”¹. Thus, the official reason is that they did not find apartments that meet the standards. They were afraid to look for non-standard solutions within the framework of the legislation, or simply responsible persons do not know how to think outside the box.

There are few reverse examples (refusal to implement inefficient, unnecessary activities, programmes, tasks for which funds have already been allocated or allocated to the region), or they appear when the funds have already been spent. “In Kalmykia, a verdict was passed in a criminal case on the theft of 300 million rubles allocated for the construction of the Levokumsky water pipeline and treatment facilities”². Water supply is one of the most important and complex infrastructure tasks for Kalmykia, which, due to natural conditions, is the most arid region in Russia. One of the attempts to solve the problem was the Levokumsky water conduit project, which was supposed to deliver water from an underground source on the territory of the Stavropol Territory 200 km away to Elista. “The very idea of its construction, as we now see, turned out to be erroneous; in our case, a strategic decision is needed, such as a

water pipeline from the Volga”, said the deputy chairman of the government of Kalmykia³.

How the efficiency of the project was calculated, the implementation of which was eventually abandoned, is probably a purely rhetorical question. After all, the performers have already been punished, and the designers, it turns out, do not bear responsibility for an error in assessing the effectiveness of a water supply project. Meanwhile, in accordance with the Budget Code of the Russian Federation, the adoption of a budget of any level is preceded by a multi-stage procedure of preparation and approval⁴. It is at the preparatory stage of the budget project that the calculation of efficiency is provided as well as the assessment of expediency. What is the difference? In accordance with the definition of the classics of economic science, “economic efficiency is obtaining the maximum possible benefits from available resources. The producer and consumer of goods strive for the highest efficiency, while maximising their benefits and minimising costs” [Samuelson, Nordhaus, 2014, p. 55]. In practice, this means that a business will be profitable, for which the economic efficiency indicator - result / cost – will be more than one. There is no point in running a business that is not profitable.

Developing the theoretical definition of the category “economic efficiency”, modern researchers refine and detail the definition. Thus, the concepts of social, budgetary, commercial, technological, institutional and other efficiencies appeared, the division of economic efficiency into types, types, aspects, etc. The desire to explain the essence of the concept came primarily from the lack of alternatives to this category in economic theory.

Economic feasibility is a relatively new category for economic theory, and its definition in modern science very often duplicates, in fact, economic efficiency, which causes an active discussion. At the Forexdengi forum in the contest of the best answers (finance), the winner was the following definition: “The concept of expediency can be usefulness, reasonableness, rationality or appropriateness. The existing world currently lives in terms of commercial law, therefore, economic feasibility is a measure of the reasonableness of using modern developments when introduced into economic processes.”⁵

There are also enough examples of the identity of the terms “economic expediency” and “economic efficiency” in economic journalism to conclude that it is necessary to clarify the essence of the categories. For example, the Internet portal BusinessMan.ru formulates economic

¹ https://vk.com/wall426414311_16381?ysclid=la427a2rym948539399 12 августа 2021 года.

² <https://elista.bezformata.com/listnews/kalmikii-vinesen-prigovor-po-delu/94962166/?ysclid=la46ewd3np520947252>.

³ The solution of the water issue will be a historic event for Kalmykia: experts talk about the project of the Volga water conduit. <https://eacs.center/discuss/reshenie-voprosa-s-vodoj-stanet-istoricheskim-sobytiem-dlya-kalmikii-eksperty-o-proekte-volzhsokogo-v?ysclid=la46gokova907896523>.

⁴ Budget Code of the Russian Federation. <https://base.garant.ru/12112604/?ysclid=la47bsm5r7352957620>.

⁵ Community of forex traders. <https://forexdengi.com/forum/forum-treyderov/forekspediya-konkurs-luchshih-otvetov-finansy/131468-cto-takoe-ekonomicheskaya-celesoobraznost>.

feasibility as “the possibility of a company making a profit after the sale of its products”⁶, considering economic feasibility as a one-time measurement of economic efficiency.

Of course, both concepts are identical from the standpoint of evaluating the result, the expected effect of actions. However, the difference, in the opinion of the author, is obvious: in the case of economic efficiency, the indicator is quantitative, in the case of economic feasibility, it is qualitative. At the same time, performance indicators for the use of budgetary funds should work simultaneously.

The need for a theoretical justification for separating economic feasibility into a category different from economic efficiency is based not only on the emergence of new approaches to assessing any activity, but also on the desire of society to achieve non-commercial goals. In the case of the state budget, budgetary funds, the definition of efficiency does not work in a commercial sense, but within the framework of the state constitution, primarily because of different tasks: for business it is profit, for the state it is the maximum satisfaction of society needs. “The Russian Federation is a social state whose policy is aimed at creating conditions that ensure a decent life and free development of a person”⁷, says Article 7 of the Constitution of the Russian Federation. In the case of spending public resources, we expect not just efficiency, but socio-economic efficiency. It, in turn, is measured by the degree of satisfaction of the material, social, spiritual needs of people, which guarantees a high level and quality of life. The indicators are largely relative and poorly correlated with the price measurement. Example: A consumer spent a certain amount to attend a famous artist’s concert. The firm - the organiser of the concert, in the event that the proceeds exceed the costs incurred, considers its activities profitable or cost-effective. How to calculate the viewer’s personal benefit, profit? Satisfaction of spiritual needs in the calculation of the category of economic efficiency is impossible. Unlike business, a person can only give a comparative assessment – “it was worth it” or “it was not worth it”. At the same time, for each individual, the named estimates may include different parameters. The evaluative methods of interviewing and questioning used in economics are precisely aimed at identifying various aspects of the assessment in order to make appropriate decisions supported by the majority. It can be formulated differently: a concert will be cost-effective if at least a thousand spectators, at least one, cover the costs of it. The concert will be economically viable if it still has the number of spectators provided by the concert venue, and

most of them will consider that the satisfaction from the concert corresponds to the cost of the ticket, that is, “it was worth it.”

The same analogy applies to the calculation of budget parameters at the stage of its preparation. It is impossible to reliably calculate the economic effect of the allocation of funds, for example, to the social sphere. How to translate the effect of recovery into a monetary dimension when allocating funds, for example, for new furniture in a hospital? Comparative parameters are not applicable in the accounting policy, and even more so in the accounting policy of the state. In the example described, economic feasibility is discussed. Yes, the furniture is old, but it performs its function with sufficient quality. Hence, its replacement is inappropriate. It is better to allocate funds for the purchase of new medical equipment to replace obsolete ones.

Thus, the financing of the social sphere (education, healthcare, culture) at the stage of budget formation involves an assessment of economic feasibility. First of all, because in the social sphere, as well as in the areas of protecting law and order, the defense capability of the state, environmental protection, the goal prevails over the economic effect. Such a distinction is simply necessary to balance the state budget at all levels.

The regional budget of the Republic of Kalmykia, because of its subsidies, is regularly criticised due to incorrect emphasis on economic feasibility. For example, the only creative educational institution in the republic, the College of Arts named after V.I. Chonkushev, for which the regional authorities cannot construct a new building. The learning process does not stop, which is unsafe. Since the construction of the building – since 1976 – no major repairs have been carried out. According to the Ministry of Culture of Russia, “as per the passport of the investment project submitted by the region, the total cost of the work is 3.8 billion rubles. The term for commissioning the facility is 2028. It should be noted that there is no design and estimate documentation for the facility. At the same time, the ready-made project already available, the passport of which the federal ministry refers to, “unfortunately, was “hacked to death” by the head of the republic. There is no new project today”⁸. Almost all children’s extended education facilities built in the Soviet era require major repairs: an art school, music and sports schools, most of the buildings of children’s sports sections of the republic.

At the same time, within the framework of the federal programme “Development of physical culture and sports in the Russian Federation” and the federal project “Sport is the norm of life”, the ice skating rink “Dzhungar” was

⁶ <https://businessman.ru/ekonomicheskaya-tselesoobraznost---eto-otsenka-ekonomicheskoy-tselesoobraznosti.html?ysclid=18oq6olewv686989283>.

⁷ <http://publication.pravo.gov.ru/Document/View/0001202007040001?index=3&rangeSize=1>.

⁸ <https://kprf.ru/party-live/regnews/212755.html?ysclid=1a726jdo8p941172152>.

built. The object, of course, is not comparable in cost, but quite comparable in terms of expediency. “The cost of the rink, according to updated data, is estimated at 200 million rubles. At the same time, about 175 million are funds from the federal budget and a potential investor”⁹. The inefficient use of budgetary funds on the example of this object is also indicative. The prosecutor’s office of Kalmykia opened a criminal case on the fact of embezzlement of 11 million rubles during the construction of the Dzhungar ice rink in Elista¹⁰. The ice rink has already been put into operation and works with high operating costs in the warmest region of Russia with the highest electricity tariffs among its neighbors. The skating rink involves the most expensive sports in terms of equipment, which clearly affects the number of visitors to one of the poorest regions in terms of living standards.

The above comparison of objects is selective: when adopting and executing the budget, the ice center “Dzhungar” was not opposed to the College of Arts and other socially significant objects. Such a choice is simply not worth and was not made due to the different departmental subordination of objects, different programmes, different levels of budgets. Nevertheless, the objects are located on the territory of the republic and are necessary for it in order to improve the quality of life of the population. That is why they are comparable with the position of the appropriate use of resources.

In the case of the social facilities of Kalmykia, the role and specifics of regional economic structures are clearly visible, designed to compare the goals of the development and existence of the region with the available resources. In this aspect, of course, economic efficiency comes to the fore. Lack of resources forces you to choose where they will work most effectively. At the same time, it is unacceptable to pursue an economic effect without comparing it with economic expediency. This is the basis of the economy – the Pareto law, which is formulated as “20% of efforts give 80% of the result, and the remaining 80% of efforts give only 20% of the result” [Koch, 2012]. In practice, the law is widely used as a basic setting in the analysis of the efficiency factors of any activity and optimization of its results: “By choosing the right minimum of the most important actions, you can quickly get a significant part of the planned full result, while further improvements are ineffective and may not be justified” [Koch, 2012].

For example, by annually increasing the areas of social assistance as measures to support families with

children, the state does not achieve the economic effect – raising the standard of living – but realises the goal – material support. The state sets a goal, which means that in this case the category of economic feasibility is applicable. Other examples can be given where it is necessary to assess the economic feasibility and not take into account economic efficiency. In fact, these are all social payments and additional payments that have the purpose of supporting, encouraging, and not making a profit. At the same time, economic feasibility, of course, requires a financial assessment. After all, it may turn out that in the course of achieving the goal, not everyone was paid, not enough, and as a result, there are 80% of the dissatisfied. It must be admitted that with the additional payment for work in the red zone during the COVID-19 epidemic, adjustments were made several times both in the methodology for calculating the additional payments and in the list of recipients. As a result, payments to doctors (20% of efforts) during the epidemic did not leave us without medical care. Later refined financial actions (80% of efforts both in volume and in directions of expenditure) achieved only 20% of the result: there were not enough beds, medicines, orderlies, there were no scheduled appointments, and mortality did not decrease. It is clear that the ratio is relative, but nevertheless it allows to evaluate quantitatively, in percentage terms, the economic feasibility of the decisions being made. But even in this theoretically sound economic example, the emphasis is on the fact that the actions were expedient. Inaction is worse than ineffective action. This is a qualitative measurement of the social expectation of society, which was satisfied, and therefore expedient.

There are many examples of comparison, intersection of indicators of qualitative and quantitative assessments of performance in all spheres of life, sectoral and regional policy. Therefore, of course, the division of categories is an important stage in further theoretical research in the field of measuring economic feasibility. The philosophical basis of this category, defined as usefulness, reasonableness, rationality or appropriateness, in no way distorts its essence and allows justifying its application in the economy from an interdisciplinary, general scientific point of view in the development, adoption and execution of the budget of any level and any field of activity. The adoption of a theoretical justification for the separation of the categories of economic efficiency and economic feasibility, provided that they are jointly used in budget policy, will be a competent strategic decision.

⁹ Steppe News 2019. August 20. <https://tegrk.ru/archives/72542>.

¹⁰ Business vector <https://www.business-vector.info/saratovskaya-kompaniya-mihaila-lysenko-144113/>

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The article was submitted on 23.10.2022; revised on 20.11.2022 and accepted for publication on 25.11.2022. The author read and approved the final version of the manuscript.

文章于 23.10.2022 提交给编辑。文章于 20.11.2022 已审稿，之后于 25.11.2022 接受发表。作者已经阅读并批准了手稿的最终版本。