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DIRECT TRANSFERS BETWEEN THE FORMER SOVIET UNION CENTRAL BUDGET AND THE REPUBLICS: PAST EVIDENCE AND CURRENT IMPLICATIONS

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Direct Transfers between the Former Soviet Union Central Budget and the Republics: Past Evidence and Current Implications

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Lucjan T. Orlowski*

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I. INTRODUCTION

Until the collapse of the Soviet Union, the financial relations between the Former Soviet Union (FSU) central budget and the republics were based on direct budget transfers, and indirect payments via the exchange of overpriced or underpriced goods. This paper examines the direct transfers between the Union budget and the republics. The direction and volume of such transfers are assumed to be relevant for the post-Soviet Union period and for the willingness of some of the FSU republics to participate in the economic network of the Commonwealth of Independent States (CIS). More precisely, those republics which were net recipients of the central budget funds are expected to endorse continued close economic linkages within the FSU system and those which were net contributors hope to effectively break away from it.

Several analysts have recently advanced a hypothesis that the Central Asian Republics of the FSU are most interested in maintaining the trade and monetary relations within the CIS system due to the strong previous financial assistance provided by the central budget. On the other side, the Baltic republics are said to be most interested in redirecting their economic ties outside the FSU (A Study of the Soviet Economy, 1991; Fischer, 1992; Koshanov, 1992; Frantseva, 1992).

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This analysis is aimed at testing these statements by investigating direct flows between republican budgets and the Union budget in 1989, the last year for which a comprehensive and reliable set of such data has been published. Direct relations between the share of transfers from the Union in republican state budget revenues and the share of taxes paid to the Union in their total expenditures are investigated. In addition, these transfers to and from the Union budget are analyzed in proportion to the republican GNP and on the per capita basis. The data for 1989 are based on reports of Goskomstat and the Ministry of Finance published for the first time since the major reform of the Soviet statistical system was introduced in 1987. Since the Soviet Union and its central budget no longer exist data for 1989 were also compiled for the last time.

Section II of this analysis presents a general description of the FSU state budget system. It is followed by the investigation of the net transfers between the Union budget and the republican budgets relative to their revenues and expenditures (section III). To reflect the burden or contribution of these payments had compared to the size of the republican economies, GNP and per capita adjustments of these data are also added. Implications of these findings for the contemporary shape of the economic cooperation between the FSU republics are presented in section IV.

II. UNION-REPUBLICAN FISCAL RELATIONS IN THE FORMER SOVIET UNION

In the past, little attention was paid in the economic literature to the direct transfers between the Union and republican budgets in the FSU. Before 1981, studies on this subject were practically impossible because the system of central and regional statistics was not technically set up to examine such issues (Seliverstov, 1992, p. 51). Moreover, the communist leaders imposed the official view derived from the "Brezhnev Doctrine" claiming that the Soviet Union is a "united family of fraternal nations", thus as in a close family "one should not keep tallies of who owes whom what" (op. cit.). The official literature of the FSU was restricted only to declarations about either "worthy contributions" of individual republics to the single nation or their "parasitic attitudes". Consequently, possible economic reasons for the distribution of budget transfers between the Union and the republics were unknown and the budgets were not published in a disaggregated form that would have allowed to draw conclusions on the economic rationale behind the FSU fiscal policy.

The well-known underlying key principle of the FSU budgetary system was its vertical organization. Minimum levels of revenues and maximum expenditures were determined by a given level of fiscal authority for all the subordinated levels. Therefore, the rules and objectives governing republican budget revenues and expenditures were arbitrarily set by the central government.

According to the rules of intergovernmental budget relations that prevailed until April 1990, republican budgets were allowed to keep most of the turnover tax revenues, personal tax revenues, and fractional shares of profit tax revenues. In addition, they could fully retain local charges and taxes on profits of regionally-subordinated enterprises. On the other side, foreign trade revenues and a major share of profit tax revenues were disbursed to the Union budget. The general provision governing tax sharing between the Union and the republican budgets was that the enterprises coming under all-union jurisdiction had to pay 40 per cent of profit taxes to the republican budget with the rest disposed to the central budget. Enterprises under republic jurisdiction had to pay

90 per cent to the republican and only 10 per cent of the profit tax to the Union budget. But the share of enterprises falling into local jurisdiction varied substantially between the republics from as low as 27 per cent for Russia to 73 per cent for Kasakhstan. The Central Asian republics had a much higher share of locally-reporting enterprises (Granberg, 1990, p. 46). In addition, turnover taxes, generated primarily on sales of alcohol, textiles, petrochemicals, etc., were collected by the republics. However, if their collection did not fully cover republican spending (bearing in mind: according to the centrally set rules) the republics were entitled to receive central "compensating subsidies" that were determined on the basis of a so-called "left-over principle" (Granberg, 1990, p. 47). Transfers from the Union budget to the republics (as a part of the republican budget revenues) were generally aimed at providing subsidies for meat and dairy products, and selected expenses on the development of education and health care. In addition, Central Asian republics regularly received special regional grants. As the poorest republics in terms of per capita income they were also allowed to fully retain turnover taxes supplemented by special grants from the Union which were centrally determined according to arbitrarily assessed needs (see A Study of the Soviet Economy, 1991, pp. 239-240). The examination of general rules of direct budget transfers between the Union and the republics yields that the FSU central authority, primarily through the dairy products and meat subsidies and through special grants to the Central Asian republics, attempted to compensate for deficits in republican budgets, and to reduce regional income imbalances between the republics (A Study of the Soviet Economy, 1991, p. 246).

Major changes were introduced into the fiscal accounts of the FSU with the 1987 reform of the statistical system. As a result of these modifications, the republican state budgets better reflected the budgetary correspondence between them and the Union budget showing transfers to the Union as part of their expenditures and receipts from the Union as part of their revenues.

The 1987 reform granted a ministerial status to the Central Statistical Administration re-designating it as the USSR State Committee on Statistics (Goskomstat SSSR)[1]. The quality of statistical reporting was substantially improved as the result of establishing the Information-Publication Center responsible for processing the data.

The format of the consolidated budget of the republics was revised in 1987. On the revenue side the major items included: turnover taxes, enterprise revenue taxes, personal income taxes, small business taxes, taxes paid by local governments, and, finally, two positions that will be a focal point of this analysis: transfers from the Union budget and special annual subsidies from the Union budget applicable only to the Central Asian Republics. Key categories of expenditures comprised transfers to the state economic units, socio-cultural expenses (including social security and insurance funds), expenses on administration and, used in this analysis, transfers to the Union budget.

A far-reaching fiscal decentralization was enacted by the April 1990 Fiscal Law. As a result of the legislative change, the republics gained a much higher degree of autonomy to conduct economic policies, to regulate prices, and to apply income and social protection on their territories. The Union remained in charge of determining the rules and the administration of the FSU tax system, custom duties, and the central budget. Republican and local fiscal authorities gained a discretion to determine tax levels and other mandatory payments within their territorial jurisdiction in compliance with the general rules adopted by the central government.

Additional fiscal policy guidelines were issued by the Presidential Decree in October 1990. On the expenditure side, the Union remained responsible for funding the FSU national defence, energy and transportation systems. It also maintained responsibility for servicing foreign and domestic debt. Additionally, it was empowered to preserve a common Union-wide market system by overriding any attempts to erect regional barriers that would inhibit inter-republican commodity and financial flows (A Study of the Soviet Economy, 1991, p. 241). However, the function of consolidating the common market system was never effectively executed by the central FSU Government.

Despite the 1987 and the 1990 modifications, the FSU statistical system did not fully reflect the governmental intermediation of resources in the national economy. One of the weakest spots was the exclusion of direct transfers of enterprise profits and subsidies of loss-makers from the record of taxes and expenditures. These activities were treated as internal transfers within branch ministries, thus they were not placed on state budgets. Consequently, transfers between republican and the Union budgets were limited only to direct payments and receipts to governments, not to state enterprises. Given the fact, that up to 70 per cent of the enterprises operating in the individual republics belonged to the Union, the exclusion of profit taxes from the vertical redistribution scheme heavily distorts the actual picture of budgetary dependencies between the Union and the republics.

Taking into account the complexity of the FSU statistical system these deficiencies cannot be easily eliminated. Goskomstat in the presentation of the consolidated republican budgets for 1989 undertook a great effort to balance discrepancies among republican data collecting and data reporting systems. Larger republics, such as Russia, Ukraine, Kazakhstan and the Baltic states channeled the data through more reliable independent state statistical agencies, while many others relied more heavily on quasi-official persons and organizations whose credibility was sometimes questionable. These discrepancies were seeded away by Goskomstat, but not for long. After the abolition of Goskomstat SSSR in November 1991, parallel to the dissolution of the whole Soviet Union, the ability to gather and to aggregate data from the FSU were virtually abandoned. The independent republics have now developed their own statistical agencies and regulations which are becoming increasingly incomparable within the FSU framework. Therefore, the use of the 1989 Goskomstat data for the purpose of this analysis seems to be valid and appropriate.

III. DIRECT BUDGETARY TRANSFERS BETWEEN THE UNION AND THE REPUBLICS

Several measures are presented for the purpose of reflecting the degree of net support or drainage of the republic funds by the Union budget.

The first of them is the difference between the share of the given republic funding by the Union in its budget revenue and the share of the contribution to the Union in its expenditure presented in Table 1. The data for 1989 appear rather typical for republican and Union budgets over the last several years of the FSU (Goskomstat SSSR: Finansy SSSR, 1991, p. 191). There is only one substantial deviation for that year: Armenia received an extraordinary large injection from the central budget in emergency funding for the victims of the catastrophic earthquake (see Odling-Smee, 1992). The share of transfers from the central Union budget in Armenia's total budget revenues reached 46.2 per cent while the average share for all other republics amounted to only 10.9 per cent.

Table 1 - Republican Transfers to the Union and from the Union Budget to the FSU Republics in 1989, in mill. Rubels

Republics of the Former Soviet Union	(1) Government budget revenue 1989	(2) Transfers from the union budget	(3) Share of union's budget transfer in rep. revenue per cent	(4) Government budget expenditures	(5) Transfers to the union budget	(6) Share of transfers to union in rep. budget expenditures per cent	(7) Difference between (3) and (6)
Variable name	R	Tu	Tu/R	E	Ts	Ts/E	
1. Russia	137,447.5	2,935.8	2.1	133,592.6	5,094.2	3.8	-1.7
2. Ukraine	40,756.5	1,751.0	4.3	39,604.6	1,346.8	3.4	0.9
3. Belorussia	12,739.8	202.8	1.6	11,968.7	249.3	2.1	-0.5
4. Uzbekistan	12,014.8	3,414.0	28.4	11,536.2	506.7	4.4	24.0
5. Kazakhstan	15,962.8	3,689.3	23.1	15,377.4	479.1	3.1	20.0
6. Georgia	4,532.8	349.7	7.7	4,398.8	71.2	1.6	6.1
7. Azerbaijan	4,130.4	224.6	5.4	3,861.3	89.8	2.3	3.1
8. Lithuania	4,835.1	89.9	1.9	4,725.9	99.9	2.1	-0.3
9. Moldavia	3,957.2	220.4	5.6	3,701.4	148.0	4.0	1.6
10. Latvia	3,388.4	113.3	3.3	3,254.9	59.5	1.8	1.5
11. Kirgizia	3,013.5	607.1	20.1	2,801.3	66.3	2.4	17.8
12. Tadzhikistan	2,672.9	540.8	20.2	2,561.9	70.3	2.7	17.5
13. Armenia	4,949.3	2,285.8	46.2	4,728.1	47.1	1.0	45.2
14. Turkmenia	2,303.2	621.5	27.0	2,221.8	62.0	2.8	24.2
15. Estonia	2,236.6	54.3	2.4	2,141.3	65.6	3.1	-0.6
All republics	254,940.8	17,100.3	13.3 average	246,476.2	8,455.8	2.7 average	10.6 average

Data Source: Goskomstat SSSR, 1991.

The differences in the sizes of republican budgets are directly related to the differences between the economic potential of individual republics. By far, Russia's role in the consolidated republican budget was the largest. While it had a 51.4 per cent of the total FSU population and generated 61.3 per cent of the GNP of the FSU its revenue share in the cumulative budget revenue of the republics reached 53.9 per cent and the share of its spending in the total republican expenditures was 54.2 per cent. Because of its leading position within the FSU Russia would also be expected to be a net subsidizer of the FSU network of republics. Indeed, Table 1 shows that the republic transferred about 1.7 percentage points more to the Union budget in relation to its expenditures than it received from the central budget in relation to its revenues. While Russia contributed 25 per cent to total net transfers to the republican budgets, the second largest republic by all measures, Ukraine, benefited from the scheme as a net recipient.

By the same calculation, Belorussia, Lithuania and Estonia were also net contributors to the Union budget. These are the republics that have been frequently identified as the most industrialized and economically developed regions of the FSU. On the other side, large net recipients from the Union budget were primarily the Central Asian republics Uzbekistan, Kazakhstan, Kirgizia, Tadzhikistan and Turkmenia. Among this group, Kazakhstan emerges as the republic which received more than 37 per cent of total net transfers. As already mentioned, Armenia supported by the extraordinary funding for the earthquake should be viewed as a special case. It should also be noted, that the data on transfers from the Union budget to the republics presented in column 2 of Table 1 include special subsidies established for the Central Asian Republics by the Soviet Government for the purpose of their faster economic development and wage incentives [2]. In 1989, these payments in millions of current rubles amounted to 1961.0 for Uzbekistan, 2698.3 for Kazakhstan, 510.9 for Kirgizia, 321.4 for Tadzhikistan, and 403.3 for Turkmenia (Goskomstat SSSR: Finansy SSSR, 1991, pp. 8 and 9). Again, Kazakhstan enjoyed a priviled position.

For the purpose of evaluating the net burden or the net gain which the budgetary correspondence between the Union and the republics had on the republican gross national product the transformation of these data in proportion to the republican GNP is presented in Table 2. It is hypothesized, that there was a sizable drain of GNP of Russia and other donor republics to the central budget and a large injection of income from the Union to the Central Asia.

Column 13 indicates the degree of net subsidization of republican budgets in proportion to their contribution to the FSU GNP. Negative scores imply a relative drainage of republican budgets in proportion to their contribution to the all-republican GNP. Again in this case, Russia, Belorussia, Lithuania, and Estonia were the net contributors to the Union budget, but this time joined also by Ukraine, Moldavia, and Latvia. The clear net recipients of income transfers from the Union were again the Central Asian states, while much weaker, although still positive net transfers were gained by Azerbaijan and Georgia. These two republics would be probably joined by Armenia under regular circumstances. Compared to its contribution to the GNP of the entire Union, Kazakhstan (apart from Armenia) received the largest portion of gross transfers from the Unions budget.

In order to reflect the net effect of the transfers between the Union and republican budgets for the residents of individual republics these measures are adjusted by the size of population.

Table 2 - Republican Transfers to the Union and from the Union to the Republics in Relation to the GNP in 1989

Republics of the Former Soviet Union	(8) GNP (bill. Rubel)	(9) Transfers to the union budget as a % of GNP per cent	(10) Transfers from the union budget as a % of GNP per cent	(11) TRN = Ts / Sum Ts ------------------- GNP / Sum GNP	(12) TRU = Tu / Sum Tu ------------------- GNP / Sum GNP	(13) Difference between TRU and TRN
Variable name	GNP			TRN	TRU	
1. Russia	577.5	0.9	0.5	0.984	0.280	-0.703
2. Ukraine	152.6	0.9	1.2	0.984	0.633	-0.351
3. Belorussia	39.6	0.6	0.5	0.702	0.282	-0.420
4. Uzbekistan	30.1	1.7	11.3	1.877	6.255	4.377
5. Kazakhstan	39.9	1.2	9.3	1.339	5.099	3.760
6. Georgia	14.1	0.5	2.5	0.563	1.368	0.805
7. Azerbaijan	16.1	0.6	1.4	0.622	0.769	0.147
8. Lithuania	13.4	0.8	0.7	0.831	0.370	-0.461
9. Moldavia	12.0	1.2	1.8	1.375	1.013	-0.363
10. Latvia	10.6	0.6	1.1	0.626	0.589	-0.037
11. Kirgizia	7.8	0.9	7.8	0.948	4.292	3.344
12. Tadzhikistan	6.6	1.1	8.2	1.188	4.519	3.331
13. Armenia	9.6	0.5	23.8	0.547	13.130	12.583
14. Turkmenia	6.9	0.9	9.0	1.002	4.967	3.965
15. Estonia	6.2	1.1	0.9	1.180	0.483	-0.697
All republics	943.0	0.9	1.8	.984 average	2.937 average	

Data Source: Goskomstat SSSR, 1991; PlanEcon Report: Aggregate Economic Developments in the Fifteen Former Soviet Republics, 1980-91, 24 March 1992.

Given the direction of net transfers from Russia and the Baltic States to the Central Asian states (Table 1), it can be hypothesized that the economic rationale behind direct transfers was to partly equilibrate differences in the capacity of individual republics to raise budget revenues. This hypothesis can be tested by comparing the range in the republican revenues on a per capita basis with and without direct transfers. In fact, a narrowing of the gap between the revenue-richest and revenue-poorest republics was achieved through the transfers (Table 3). Without transfers per capita revenues of Tadzhikistan as the poorest state would have only amounted to 50 per cent of the average per capita revenues of all republics while those of Estonia would have exceeded this average by almost 65 per cent. The redistributive element of revenues through the transfer system reduces this dispersion only marginally. Tadzhikistan moves up to almost 59 per cent of the average while Estonia declines to 58 per cent above the average. As a result, the discrepancy of republican per capita revenues becomes smaller with transfers compared to the situation without transfers, declining respectively from 37.3 per cent to 31.9 per cent of the average (variation coefficient).

While the redistribution effect is not large, there are nevertheless some important results. Firstly, except for Armenia as a special case in 1989, the largest improvement in per capita revenues due to receiving transfers was unexpectedly not enjoyed by Tadzhikistan but by Kazakhstan, Turkmenia and Uzbekistan. That means that the gap between Tadzhikistan and the second poorest republic (in terms of per capita revenues) became even larger because of the transfers. It was also due to the transfers that Azerbaijan which experienced almost no change in per capita revenues was surpassed by Uzbekistan and thus dropped to the second-lowest rank.

Table 3: Republican Budget Revenues With and Without Union Budget Transfers

Republics of the Former Soviet Union	(14) Republican government budget revenue 1989 (mill. Rubel)	(15) Republican government budget revenue without transfers	(16) 1989 Population in millions	(17) R/Sum R / POP/Sum POP	(18) RWT/Sum RWT / POP/Sum POP	(19) Difference between (17) and (18)
Variable name	R	RWT	POP			
1. Russia	137,447.5	139,605.9	147.59	104.9	110.3	-5.4
2. Ukraine	40,756.5	40,352.3	51.55	89.1	91.3	-2.2
3. Belorussia	12,739.8	12,786.3	10.20	140.7	146.2	-5.5
4. Uzbekistan	12,014.8	9,107.5	20.11	67.3	52.8	14.5
5. Kazakhstan	15,962.8	12,752.6	16.70	107.7	89.1	18.6
6. Georgia	4,532.8	4,254.3	5.33	95.8	93.1	2.7
7. Azerbaijan	4,130.4	3,995.6	7.03	66.2	66.3	-0.1
8. Lithuania	4,835.1	4,845.1	3.72	146.5	151.9	-5.5
9. Moldavia	3,957.2	3,884.8	4.26	104.7	106.4	-1.7
10. Latvia	3,388.4	3,334.6	2.69	141.9	144.6	-2.6
11. Kirgizia	3,013.5	2,472.7	4.33	78.4	66.6	11.8
12. Tadzhikistan	2,672.9	2,202.4	5.13	58.7	50.1	8.6
13. Armenia	4,949.3	2,710.6	3.51	158.9	90.1	68.8
14. Turkmenia	2,303.2	1,743.7	3.55	73.1	57.3	15.8
15. Estonia	2,236.6	2,247.9	1.59	158.5	164.9	-6.4
All republics	254.940,8	246,296.3	287.3	100	100	
Variation coefficient				0.319	0.373	

Data Source: Goskomstat SSSR, 1991.

Secondly, again apart from Armenia, Kazakhstan was the only republic which moved from below the average to above the average.

Thirdly, Estonia as the republic with the strongest revenue base had to contribute the largest part measured in per capita terms (but not in terms of GNP, Table 2). But Russia with a much weaker revenue base followed already in the second place. Measured in terms of its GNP share, Russia even contributed the largest portion to net transfers. The second largest republic measured by GNP, Ukraine, however, contributed much less to the transfers than Belorussia or the Baltic states.

In brief, on the recipient side, the most astonishing outcome of the redistribution system is the privileged position of Kazakhstan and also Uzbekistan while on the donor side Russia contributed much more than the Ukraine, for instance.

Overall, the direct transfers failed to compensate for rising per capita income differentials within the FSU in the eighties (Goskomstat SSSR: Osnovnyie Pokazateli, 1990, p. 125). Between 1980 and 1988 the real household income per capita rose rapidly in Lithuania (by 29.8 per cent), Moldavia (by 24.7 per cent), and Latvia (by 21.7 per cent). At the same time it declined for three of the republics, Uzbekistan (by 9.1 per cent), Armenia (by 1.2 per cent), and Tadzhikistan (by 0.3 per cent). The remaining republics had increases in real household income per capita in the range between 0 to 20 per cent.

It has become clear, the FSU direct budget transfers system was not effective in the redistribution of income. Possible economic motives behind this mechanism have never been disclosed or discussed (Seliverstov, 1992, p. 51). One can only presume that the rationale for this system was based on purely political objectives. Whatever republican government had more bargaining power and political support in Moscow could obtain larger transfers from the Union budget and some relief in payments to the Union budget. The examined data indicate that it would have been primarily the case of Kazakhstan as a strategically important republic (host of air space research center, sectoral resource endowment, nuclear missile base, large Russian minority). To some extent, this also held for the Ukraine which was the native republic of the long-term Soviet ruler Leonid Brezhnev and, therefore, may have enjoyed privileges to be exempted from payments to other republics via the Union's budget.

Even though the direct budget transfers between the Union and the republics were politically determined they had to be based upon some economic factors. Various newspaper reports in the 1980s suggest at least two such factors. Firstly, the budgetary transfers were aimed at preserving inefficient enterprises which provided jobs in the economically depressed areas. For instance, in 1984, the Soviet Prime Minister Ryzhkov turned down a proposal of a panel of economists to close several highly inefficient enterprises for the reason that they were major employers of the local labor force, simultaneously establishing a special program of their protection. Among them was, for example, a large plant producing refrigerators in Dusanbe (Tadzihikstan) that could not keep up with competition of the similar plant in Minsk (Belorussia) the products of which were more popular among Soviet customers. Secondly, the direct transfers to the republics were aimed at compensating for enterprise losses stemming from inappropriate structures of administratively fixed prices. These transfers were directed mainly into agricultural state farms, located in the Ukraine and the Central Asian states. Prices of their crops were disproprotionately lower than prices of agricultural machinery, which, in addition, had a very short durability (it was estimated, that an average combine harvester lasted only about two years). Consequently, through a special program state farms regularly received central budget subsidies to purchase them.

The help to Central Asian republics from the center was also desirable from the standpoint of a much faster growth of population in that region, because of the need to provide an educational infrastructure for their young societies. In the period 1960-1989, all five republics reported about 2.5 times faster growth of population than the rest of the Soviet Union (McAuley, 1992). This undoubtedly resulted in a fast increase in population of young residents not yet included in the labor force which is a portion of the society that normally requires a large injection of investment in human capital. This investment is expected to rely largely on external funding because the young people cannot yet contribute to the domestic value added. However, as the statistical result of Table 3 indicates the per-capita revenue equalization mechanism of the Union budget was not effective.

Overall, the system of direct transfers failed to be a true fiscal compensation scheme as the spread between revenue-poor and revenue-rich countries was not significantly reduced. Nevertheless, for the poor republics the transfers comprised a large portion of their GNP and of their tax revenues, and this is expected to have serious implications for the budgetary situation of the republics after the break of the Soviet Union and the end of the direct transfers.

IV. IMPLICATIONS FOR PRESENT DEVELOPMENTS IN INTER-REPUBLICAN COOPERATION

The pre-1990 scheme of fiscal redistribution through the Union's budget in favour of the backward republics failed to equilibrate their per capita budget revenues. This is what the comparison with and without transfers has shown. Nevertheless, it implied a considerable external support to the budgets of the poorer republics. To put a proportion of about 10 per cent of net transfers in the domestic value added of Uzbekistan into a perspective (Table 2), it even slightly exceeds the average percentage of disbursed official development aid in the GDP of low income developing countries (excluding China and India) of about 9 per cent in 1990 (World Development Report 1992, Tables 3 and 20). Kazakhstan and the other Central Asian Republics came close to such shares.

Losing this support virtually overnight in the aftermath of the Union's collapse, is, therefore, equivalent to a severe and unprecedented burden in the process of economic transformation. Developing countries under structural adjustment had not to incur such an external shock.

This shock adds to the loss of indirect transfers which the new independent states have to face if Russia charges them world market prices for energy supply rather than subsidized domestic prices as under the old system.[3]

In a situation of budgetary and fiscal autonomy from Russia as it exists today, this loss cannot be bridged by drawing upon own resources. An improvement of collection of taxes imposed on domestic transactions faces the barriers of an extremely weak tax base and poor tax administration. To tax the small formal sector would give rise to tax evasion, capital flight and the emergence of a large shadow economy which escapes from any governmental access. Taxing international trade by imposing tariffs on imports and exports is first economically inferior to taxing domestic transactions and, secondly, would not be a rich source of revenues as the foreign exchange constraint appears to be binding. That means that without exportables in hard currency these countries do not have a base to tax imports as long as there is no access to external savings. Under the given conditions of an inelastic demand for imports of energy and capital goods from the other CIS states, tariffs on these imports would be costly in terms of income losses (terms of trade losses).

Cutting public expenditures as the other alternative would mean to reduce investment into physical and human infrastructure which is badly needed as a complement to private investment in the process of economic transformation. In particular, investment in human resources is urgently required in the Central Asian economies with their rapidly growing population. Given the discouraging situation of CIS co-operation, any financial support from a new scheme of fiscal redistribution under the auspices of the CIS seems illusive.

As a result, there does not appear to exist any other option than relying on external savings, including development aid. Parts of these savings might come from the CIS states if the richer states, in particular Russia, would be prepared to shoulder a relatively large part of the financial burden in common infrastructure projects. Such projects could not only encompass physical infrastructure but also those targeted at supporting the large Russian minorities in these countries. Again, Kazakhstan hosting the largest Russian minority among the republics (in terms of shares in total population) could benefit from such support. Yet, the larger portion of public external savings will probably come from development aid financed by OECD countries (and/or the Arab Development

Fund in the case of Islamic countries). The prospects to receive such transfers have recently improved. In October 1992, the five Central Asian countries (including Kazakhstan) were accepted as developing economies by the Development Assistance Committee of the OECD and thus are now entitled to receive aid under ODA conditions. (Handelsblatt, Zahlenspieleien zu Lastens des Südens, 21 October 1992). Moreover, as very poor countries they might be classified as least developed countries and therefore would qualify for receiving development aid at more heavily subsidized IDA conditions.

To try to replace the direct transfers under the old system by external savings, reflects the state of ongoing disintegration within the CIS and is, therefore, more credible than a wishful thinking of a new scheme of horizontal fiscal redistribution between CIS states.

NOTES

[1] See Heleniak (1992) far a detailed description of the 1987 Soviet Statistical Reform and Treml (1988) for a presentation of the general evolution of the Soviet statistical system.

[2] A comprehensive discussion on the impact of this program on the current economic reforms in Kazakhstan can be found in Koshanov (1992).

[3] The Goskomstat conversion of inter-republican trade from domestic prices into world market prices suggests that there would have been hardly any change for the Central Asian countries (Vestnik Statistiki, No.4, 1990) so that their balance of payments would have not been very much affected. Yet, this assessment seems overly optimistic for the poorer economies as their non-energy exports to Russia which might have been underpriced as well have broken down while they are still dependent on energy imports from Russia.

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