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THE POSSIBLE IMPACT OF FISCAL DECENTRALIZATION ON ECONOMIC GROWTH IN UKRAINE

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Summary. The question of influence of fiscal decentralization on economic development of the state is discussed in the article. Essence of fiscal decentralization is determined. The factors of effective process of decentralization are characterized. Directions of optimization of profits are offered at local level.

Аннотация. В статье исследуется вопрос влияния фискальной децентрализации на экономическое развитие государства. Определяется сущность фискальной децентрализации. Харак-

Анотація. В статті досліджується питання впливу фискальної децентралізації на економічний розвиток держави. Визначається сутність фискальної децентралізації. Характеризуються чинники ефективного процесу децентралізації. Запропоновані напрями оптимізації доходів на місцевому рівні.

теризуются факторы эффективного процесса децентрализации. Предложены направления оптимизации доходов на местном уровне.

Key words: *fiscal decentralization, local budget, taxes, level of financial autonomy, interbudgetary transfers.*

Ключові слова: *фіскальна децентралізація, місцевий бюджет, податки, рівень фінансової автономії, міжбюджетні трансферти.*

Ключевые слова: *фискальная децентрализация, местный бюджет, налоги, уровень финансовой автономии, межбюджетные трансферты.*

Introduction. Increase of efficiency central and local budgets is one of main tasks on the present stage of development of Ukraine. Present, still the considerably centralized system of state administration is ineffective enough and brakes development of local self-government. Taking into account ineffective management, territorial and budgetary systems, distributing of state facilities between the levels of budget is far from rational.

The theory of financial decentralization has certain advantages and failings on which it is needed to pay attention at its application. Among main advantages it is above all things expedient to select the best providing of necessities of local population the organs of local self-government at local level. Except for it, assistance development of competition between the organs of local self-government (in unitary countries, and in relation to federal, between the regional and local levels of management), gives the possibility to citizens independently choose for the activity administrative units with the best level of providing services [7].

Analysis of the last researches and publications. The analysis of process of decentralization is fixed in basis of researches of many known Ukrainian: V. Fedosov, A. Krisovatiy, V. Andruschenko, A. Volokhova, O. Kirilenko, I. Lunina, V. Oparin, I. Chugunov, A. Bondarenko, A. Legkostup and foreign scientists: C. Tiebout, W. Oates, R. Musgrave, H. Davoodi, R. Bird, C. Wallich etc.

The purpose of the article is to find out factors of influence of fiscal decentralization on economic growth in Ukraine.

The main researches. The basic economic argument in favor of fiscal decentralization is based on two complementary assumptions: 1 decentralization will increase economic efficiency because local governments are better positioned than the national government to deliver public services as a result of information advantage; and 2 population mobility and competition among local governments for delivery of public services will ensure the matching of preferences of local communities and local governments [10].

In a counterbalance the centralized system, decentralization in understanding of expansion of imperious plenary powers at local level, results in higher efficiency of public management at lower level, and also to the greater anxiety about interests of citizens. However, at the same time it follows to mean that transference of considerable imperious plenary powers and functions from state on lower levels without the proper financial providing can bring negative results.

There is not a standard model of decentralization in the world, as processes and procedures differ from each other and depend on primary purposes and tasks, and also from an organizational structure and mechanisms of realization. Entire countries adhere to one position of functionings for today five basic models of budgetary federalism (American, German, Chinese, Canadian), use their connections and adapted variants.

Estimating fiscal decentralization on the whole as the positive progressive phenomenon, it is necessary to pay regard to possible problems which it can create, namely: at first, the process of redistribution of money some becomes complicated through a budget and budgetary process control on the whole, because at central level more easily to decentralize responsibility for the charges of local budgets, than on the sources of taxation; secondly, in the conditions of decentralization it is more difficult to co-ordinate the

local necessities of separate territorial societies with the macroeconomic necessities of whole country.

In Ukraine to this time there is not a clear ground of economic maintenance of index of level of decentralization, which must be in a country. In foreign economic literature for determination of degree of decentralization it is possible to meet the index of decentralization, which is determined through correlation of profits of local-authority with total revenues of power and through correlation of charges of local-authority with the general charges of power [9].

The level of financial decentralization in Ukraine can be measured such indexes, as: index of financial decentralization of profits (part of local budgets is after profits (without the account of intergovernmental transfers) in the profits of the consolidated budget); index of financial decentralization of charges (part of local budgets is after charges (without the account of intergovernmental transfers) in the charges of the consolidated budget); summarizing index of financial decentralization. Except for the noted indexes, the level of decentralization can be measured as part of GDP which is redistributed through local budgets.

During 2011-2014 in the structure of revenues of local budgets part of intergovernmental transfers was more than 50 %. Regions actually lost the internal incentives of development and motivation to expansion of economic activity.

Table 1

Intergovernmental transfers from the state budget to the local budgets for 2011–2014 years

	2011	2012	2013	2014
Interbudgetary transfers, mln.grn.	94 875,0	124 459,6	115 848,3	128 626,1
Local budget revenues (with intergovernmental transfers), mln. grn.	181331,6	225273,4	221019,4	237200,0
The share of intergovernmental transfers in local budget revenues,%	52,3	55,2	52,4	54,0

Source: calculated by the author on the basis of the State Statistics Committee

Analyzing the recent tax reforms in the world can identify two trends. The first characteristic of countries with high fiscal self-discipline and shows the center of gravity shift revenue towards income tax and fewer entities. The second trend shows an increase in consumption taxes, especially at the level of local governments. Of course the choice of this or that model of the tax system depends on the traditions and priorities of economic policy in these countries.

Today urgent anti-crisis step is the decision to reduce the tax burden on domestic producers by reducing the VAT rate from 20% to 12%. The difference should be transformed into a new, exclusively local sales tax, which will have a cumulative effect and hold exclusively from retailers food and goods.

This mechanism of redistribution is consistent with our aim as increasing autonomy of local budgets, and the global trend to increase fiscal component in their income.

The purpose reformatting of consolidated budget revenues is primarily to enable the cities and villages to restore their infrastructures. According this source is not taken into account when determining the amount of intergovernmental transfers should be assigned to the development budget. Currently, these budgets are mainly filled by a single tax equity and the sale of land and property. Last sources rapidly declining because they are not renewable. The development budgets are up to 3% in towns and 18% in Kiev, the total expenditure of regions, the average is 11.6%, which in absolute terms is 20-30 bln. UAH., depending on the year. In the case of consolidation of the budgets of the new source in the form of sales tax of 8%, and this - 37 billion. UAH., then the volume of retail at 2015 local government investment opportunities will grow more than twice [13].

In developing the theme of fiscal autonomy, given the geographic, economic, social and other regional differences, it would be appropriate to delegate to local councils the right to introduce local taxes and fees in an amount not more than 2 positions and the overall size of less than 3% of revenue the previous year. Such a right would have the status of reserve capacity, which can be activated with the appearance of the tax base and after the mandatory approval of the decision of the local referendum. Periodic modernization of the financial system due to changes in the budget, bank, tax, or any other field is sometimes vital. Right now we need both individual and systemic actions to improve the fiscal system.

In itself, decentralization does not lead to higher economic growth. However, when accompanied by other growth-enhancing reforms, decentralization can positively impact a country's economic development.

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At the same time, we have the “bonuses” of fiscal decentralization:

1. Reduction of tensions between the regions. In the Ukrainian situation, this implies removing grounds for mutual accusations that “one region feeds other regions” or “one region rules the entire country”.

2. Improvement of the national politics by increasing competition between local officials, and between local and central officials. As we know, competition typically increases the quality of a product.

3. More efficient government. On average, policy decisions will be made closer to their final beneficiaries and hence, will be more fitted to the needs of a certain community. At the same time, all levels of government will work more efficiently.

Conclusions.

For the fiscal decentralization reform to succeed, it needs to be coherently bundled with a range of political and administrative reforms (such as the development of a functioning judicial system, deregulation, reduction of rent-seeking opportunities etc.), and development and implementation of such a package is challenging and time-consuming.

At the same time, a wisely designed decentralization process will be highly beneficial for Ukraine, both politically and economically. It will strengthen democracy (by increasing people's participation) and improve the quality of national politics by introducing more competition into the political system. It is also likely to significantly contribute to economic growth and prosperity, and these benefits make the fiscal decentralization reform in Ukraine a challenge worth undertaking despite of all the costs and risks.

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