JOURNAL
OF EUROPEAN ECONOMY
Vol. 15 (№ 1). March 2016
Publication of Ternopil National Economic University

Financial and Banking Services Market

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TRANSFORMATION OF PUBLIC FINANCES IN UKRAINE IN THE SYSTEM OF DECENTRALIZED PROCESSES

Abstract

Aspects of decentralization of public finances are examined. The basis of the concept is the provision regarding public finances as an outpost of the economic sovereignty. Expansive and restrictive types, budget and tax, as well as debt instruments of public finance management are analyzed. The expediency of experience by introducing a new institutional architectonics micropolicy in fiscal policy, public finances and budget is substantiated. When combining the recession with inflation, it is important to use both incentive and dissuasive financial instruments simultaneously. The positions regarding the formation of the efficient financial system in Ukraine, that are blocked by the ideological and psychological disqualification of a producer and central and local government, as well as of the unwillingness or unawareness to constrict zone of fiscal contradictions, are formulated. This situation can be changed provided the socialization of mentality based on awareness of the necessity of obtaining a part of GDP and acceptance of responsibility for the tax price of public goods and transfer payments.

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Key words:

Public finances, decentralization, tax instruments, fiscal policy, social finances.

JEL: H00, H2, H3.

Turbulence of public finances in the epoch of globalization

The discourse round the evolution of public institute and prospects to preserve its sovereignty in the epoch of globalization has not got an unambiguous evaluation in scientific literature, there is only one thing obvious – the world changes, and alongside with it the understanding changes about the role of the state in international economic relations[1], in political, economic and social life of society. «There transformation occurs of this traditional organization form of world society into its new form» (Shishkov, 2010). All that is once again actualizing in the context of retrospective view of a global development the search of answer for rhetorical questions: what part is assigned to the state, and what optimal model should be of its financial behavior in modern conditions of global transformations? Whether a global competition really means the end of national financial economic policy and welfare state?[2]

[1] During a few centuries since the origin the state (in the specific form of the national state) it was viewed as a main subject in international economic relations. The adjustment of world economy was associated with the activity of national governments, as far as it was they who carried out legal control within the limits of their sovereign territories. The national economies who were most developed in that or other period greatly determined character, forms and mechanisms of international relations. The world economy fully reasonably was viewed as totality of inter-related national economies. Trade and capital flow in a world economy were literally international (Osmova, 2006).

[2] The welfarestate became popular in the countries of Western Europe after the Second World War. The organization and legal origin of the state of welfare is related to the name of the English political figure William Beveridge, whose suggestions (Beveridge plan) in 1942 became the basis of some laws on the state system of medical service and social welfare. At an international level the decisions of International organization of labour (Philadelphia, in 1944) became the founding for legal registration and practical development of the state. (Andrushchenko, 2000).

First of all, we note that general considerations on the role of public finance in the era of globalization are unproductive if multifacetedness and multilevellness of this problem are beyond our examination (the main trends of state evolution are meant in modern globallycentric world; the change of its functional purpose in the era of globalization, and the role in the regulation of financial processes and social relations in the society; the new role of the state as a member of international financial relations; the modernization of public financial institutions and improvement of public financial management, etc.). In this paper, we will study the discourse on public finance functions and their regulatory role in contemporary global transformations since, despite considerable interest of both foreign and Ukrainian scientists (Bilorus, 2001; Halchynskyi, 2010; Bilorus, Lukianenko, 2001) in the role of public finance in the economy, the objective basis of public finance evolution is yet not clearly defined in the context of «globalization failures», as well as the vectors of forms and methods change of state regulation of the financial economy in the emerging global centric economy are also not defined. Without falling into details (meaning the peculiarities of state financial regulation in particular countries), the subject of discussion is the thesis that in the condition of global competition the public finances of national states are significantly changing, which is reflected not only in the examination of conceptual basis of the public finance theory, but also in transformation of directions, forms and methods of their management.

First, we will start with specification of theoretical and methodological foundations of public finances, since the relevant methodological base serves how to define the tools and implement the mechanisms of macroeconomic management. Different trends and schools of economic science have different approaches to definition of the subject of theoretical analysis within financial policy of the state. We will single out three most common methodological positions, where the attempts are based to deepen the relevant definitions.

The first of them relates to the understanding of public finance as a tool for implementing the financial interests of state treasury. In this context, public finances are related to the state and making financial decisions on how to finance public expenditures through taxes and other methods of accumulating financial resources of the state.

In the traditional understanding of macroeconomic dependencies the public finances are understood as government measures aimed at reducing unemployment or inflation due to changes in government spending or taxation rate, or mobilization of alternative public revenues, either through the simultaneous combination of the mentioned both measures. In this context, state revenues and public spending are the main tools of public finance, which should have a stimulating / expansionary nature (aimed at maintaining high economic growth and a high level of employment by stimulating aggregate demand) and the deterrent / restriction character (focused on reduction of aggregate demand and reduction of inflation rate).

In this case the principal position is that we consider the public finances in a broad context, that is, in the light of making financial decisions on treasury income and public expenditure, without leaving aside an integral determinant of the policy, i.e. the national debt as a tool for financing the budget deficit, and in terms of nowadays – a full-fledged segment of creating the budgetary resources of the state.

To outline the defining determinants of public finances at the present stage of global European transformations it is worth drawing attention to another important from a methodological point of view aspect. In particular, the fact that the global European economic development as a part of a much wider social and historical evolution is accompanied, on the one hand, by strengthening of the unity and integrity of the system of the world economy through the deepening of integration process; and on the other – alongside with the processes of global integration there occurs the differentiation and disintegration of the global space. In this context, the features of public finances are external forms of the objective reality reflection in the causal forms of globalization and differentiation.

De jure, public finances remain an outpost of economic sovereignty. Here at least two of the following main aspects are meant. First, one of the principles of a state legal standing and a symbol of national sovereignty since the time of the Peace of Westphalia in 1648 is the right of every sovereign state to establish and collect taxes in its territory. Second, the basis of economic sovereignty is the budget as an instrument for providing public goods as a financial basis of the economic activities of the state and fulfilling of its basic functions. And no matter how intense the globalization processes are, as long as there is a budget, there is a state, and as long there is a state, there will be a budget. Traditionally, fiscal policy is a concentrated reflection of the basic functions of the state, and the structure of the budget reflects its priorities. On the proper basis the mechanisms are implemented for public finance management.

However, we should take into account that the de facto dominants of public finances are out the geographical boundaries of the country within the global phase of the European economic development.

First of all, important changes have been caused by radical restructuring of the mechanisms of macroeconomic regulation. While previously the choice of targets and methods of regulation was determined solely by national interests of the country, now it is largely dependent on the defining landmarks of the European global development. This requires, on the one hand, unification and harmonization of tools and methods of public finance management, as the globalization has reduced the opportunities for arbitrary and voluntary behavior. On the other hand, under the global competition «... the tax system, investment regulations and fiscal policies are more responsive to changes in the parameters of the European economy, which is of global nature» (The State in a Changing World., 1997).

At this stage of globalization the immediate major external factors of public finances formation in Ukraine will be the following:

- establishment of peace in the East of Ukraine and the end of counter-terrorist operations;
- combating corruption and compliance with the requirements of International Financial Institutions that act as donors and creditors of Ukrainian state;
- the price of imported gas from the Russian Federation;
- expectation for the results of the European integration;
- pace of business activity recovery of the countries – trade partners of Ukraine, and economic growth of the European economy and, respectively, the demand for Ukrainian exports;
- physical volume of demand for basic goods of Ukrainian exports in the European market;
- the level and price dynamics for basic Ukrainian exports in the European market;
- dynamics of interest rates in the European financial market, as they determine the intensity and direction of capital flows (especially the investment portfolios), the financial situation of the country with a large external debt, and thus, the availability of capital for Ukrainian borrowers;
- the volatility of major reserve currencies (US dollar and euro), the external debt of Ukraine is denominated.

Today a global crisis has engulfed the social sphere and moves into the political (hybrid war, aggravation of political confrontation on a global scale, social disruption and problems with refugees). Worst of all, it is displayed in the society, and the crisis has moved into the sphere of values and ideology. There the global development goals should be re-thought. The institutions which operate within the global economy should be fundamentally restructured. The present day system of international institutions contributes rather to faster global chaos than the global order. The failure of economic theory to build the postulates for practical implementation of its main provisions for effective crisis-free development of the world economy once again confirms that the economy of the future requires a new theoretical foundation and building of new institutions that together makes it possible to coordinate a global scale economy, and policy in the context of taking into account national cultural characteristics and social sphere (informal institutions).

The presence of external influence factors and the subjective factors of comparative multidimensional space confirms the relevance of the theory of co-incidence based on the standard regulatory approach of a new pragmatism (Kolodko, 2010).

Rethinking of the needs for a new direction in economic theory study on the nature of public finance in the era of globalization have prompted us to reject any dogmatism as an intellectual corset, which makes a one-sided response to specific questions.

Latest financial anthropologies of the state social role

Easing of fiscal policy as the main management tool for public finances and the situation stabilization in the global instability caused an objective need for new concepts of financial regulation. Increasingly, raises the question of the need to introduce into the financial practices so-called «budget (fiscal) rules» (that is, rules / regulations that are legislatively approved or taken in the form of «social agreement» and should be the criteria of financial discipline and effective budget policy). The necessity for the adoption of these rules is due to permanently growing budget deficits, public debt and increase in spending on public debt servicing, which clearly has a negative impact on economic growth and financial stability of both the developed countries and the countries with emerging markets. The question remains open on possible positive and negative effects that can occur while using these rules compared with flexible (discretionary) fiscal policy that more dynamically reacts and adapts to external economic conditions. In other words, the subject of the discussion over the past few decades, is the following question: what policy is more effective, either unified, based on strict rules, norms and laws, or discretionary, when decisions on the adoption of certain measures are taken providing for both the objectives of national financial policy, institutional organization of the budget process and methods of implementation of fiscal policy and foreign economic conditions.

More obvious is the fact, that the budget deficit, as well as other fiscal parameters (revenues, expenditures, public debt), are to be considered not only from static approach, but also from dynamic (like the formation of budget revenues, budget expenditures, financing of budget deficit, and servicing public debt) because they are a reflection of the processes, that are interrelated and occur over time with varying intensity, coinciding in areas or in different directions.

Table 1

Types and tools of public finance management

Types of Management (Control)	Instruments of Public Finance		
	Budget and Tax		Debt
	Budget expenditures	Taxes	Loans
Expansionary / stimulating	increase	decrease	increase
Restriction / constraining	reduce	increase	decrease

Source: developed by author.

The conjectural fiscal gap as the difference (deviation) of actual basic parameters of public finances from potentially planned arises as a result of endogenous and exogenous asymmetric shocks / impulses, while a cyclical fiscal gap (deviation of fiscal parameters from the set fiscal trends, taking into account the time factor) is the result of stochastic fluctuations of business activity around the trend.

Whatever type of asymmetric shock (either be it shock of supply, or that of demand) as well as the mechanisms of its distribution, the asymmetric shocks can occur both inside the country and abroad. Against the backdrop of the current global phase of the European economic development the financial system of any country through trade and financial linkages is exposed to external factors and economic events taking place in other countries and regions. Accordingly, for analytical purposes using econometric models, it is important to calculate the impact of not only endogenous (in scientific literature it is used «home» (Sax, 1966), but also exogenous (international) stochastic component of conjuncture fluctuations and cyclical impulses. Each of these exogenous impulses or asymmetric shocks spreads in the global economy, changing the fiscal parameters of financial policies of individual states, at that, the method of distribution depends on the model of socio-economic development of each particular state and the structure of its financial system. Theoretically, the impact of exogenous stochastic fluctuations and cyclical impulses can be interpreted in different ways:

- First, as some set of common to all countries effecting asymmetric shocks;
- Second, as a set of short-term stochastic impulses (shocks), occurring in some countries with a certain time lag that spreads to other countries through trade and financial markets.

In fact, in practice it is difficult to make a clear distinction between these alternatives, although there is an obvious potential for situations, when the main role is played by each of these alternatives.

Under conditions of global fiscal imbalances deepening and exacerbation of financial crisis the issue is actualised of the balanced budget and on that basis the stability of public finances. Given the fiscal equilibrium model, the modern financial science operates five main concepts of budget balancing within which the theoretical models for taking financial decisions are distinguished:

1. The concept of balancing the budget on an annual basis, the essence of which is to balance the annual budget on a balanced basis.

2. The concept of cyclic budget balancing, whereby the budget should be balanced not in the calendar or fiscal year, but throughout the economic cycle. In this case, the government borrowing is the instrument for financing the budget deficit, resulting from a reduction in tax income in the depressed phase of the economic cycle.

3. The concept of automatically stabilizing economic policy, which involves balancing the budget throughout the economic cycle, but it, is focused on the so-called embedded stabilizers.

4. The concept of compensatory budget, which emphasizes the permanently growing economic stagnation in the developed countries and, consequently, the inability to reduce the ever growing budget deficit, and a complete rejection of government borrowing.

5. The concept of fiscal consolidation, to which the scientific interest grew under the influence of the global crisis of 2008–2009, and against the backdrop of the exacerbated debt problems in Greece, Spain, Ireland and Portugal in 2010. The budget policy of most countries in the coming years is based on the idea of providing stability of the budget system due to reducing the budget deficit by the implementation of previously adopted commitments and promoting the innovative economic development. This correction of budgetary policy is determined at least by two reasons. First, further increase in public spending is contradicting the policy of ensuring financial stability and deterring the inflation processes. Second, in most countries previously gained burden of social obligations requires their inventory and maximum reduction, which was manifested in strengthening the rigidity of budgetary rules and requirements for budget funding.

As the practice of the developed European countries shows, to achieve fiscal balance and stability most of them apply special fiscal rules[3]. Summarizing the European experience, the authors of one of the studies on this topic specify three basic types of rules that impose constraints on fiscal policy to achieve mac-

[3] In the 1990-s most of the countries developed legal and methodical documents in budget policy, budget strategies and achievement of budget stability. Thus, in Great Britain there was adopted «code of Budget Stability» (1997), in Australia –»Charter of Budget Fairness»(1998), New Zealand «Act of Fiscal Responsibility» (1994), European Union – Maastricht Treaty» (expanded according to the «Pact on Stability and Growth» (Timokhin, 2011).

roeconomic stability, and strengthening of financial stability and confidence in the economic policy of the government (Kopits, 1998):

1. The rules requiring a balanced budget or limiting the critical value of budget deficit (in particular, the following forms of fiscal constraints are meant as: the full matching of revenues and expenditures (i.e. a total ban on government borrowing) or limiting the budget deficit to certain percentage of GDP: balancing of revenues and expenditures taking into account the cyclical factor (this also refers to the amount of budget deficit): balancing specifically current income and expenses (despite the fact that loans are allowed only to finance investments).

2. The rules on public borrowing policy (may prohibit: government borrowing from domestic sources; from the central bank; or limit these loans to a certain proportion of government revenue and expenditures in the past).

3. The rules on the amount of public debt or reserves (may limit the gross (or net) debt in percentage to GDP; to determine the value of reserves of extrabudgetary funds (mostly social security funds) through the share of the annual social transfers).

Amidst the unstable external situation, the scale of global fiscal imbalances are naturally growing, but their consequences (effects) in various countries differ greatly in nature and causes of occurrence, and on the regularity and duration of existence in time and so on. At the analytical level the asymmetric nature of fiscal imbalances effects can be explained at least from three qualitatively different points of view.

First, their dynamics and forms of manifestation (that is, fiscal imbalances) in the countries that largely depend on the terms of foreign trade and external financing are different from those that are available in the countries less dependent on the outside world. In this case, one can observe a greater impact of uncertainty of the environmental factors (such as the price of oil and gas, currency volatility and unstable exchange rate, dynamics of interest rates in the markets of debt etc.) on the public finances of the countries with excessive dependence upon them that is largely due to high foreign trade openness (referred to including the Ukrainian economy).

Second, the countries – exporters of raw materials and products with low processing are exposed to different types of shocks than the countries – exporters of finished high-tech products. As is known, the amplitude of fluctuations in world commodity prices is much higher than that in the products of manufacturing industry, due to both: scarce natural resources (e.g. oil and gas) and poor competition in the commodity markets of oligopolistic nature. As for the prices of the products of low processing (e.g. ferrous and non-ferrous metals), their dynamics is largely determined by general global situation (in case when terms of trade are worsened, there occurs a sharp decline in prices for such products).

Finally, the main fiscal parameters (revenues and budget expenditures, budget deficit and public debt) may differ from the targets because the forecasts of all major macroeconomic indicators include a systematic error[4], whose action in a volatile external conditions, usually increases. The world experience shows that different countries at different times used as a conservative prediction of public finance parameters (where, for example, the forecasts of budget revenues are deliberately understated), and optimistic approach to forecasting of public finance parameters (when the forecasts of budget revenues, by contrast, are deliberately overstated)[5]. Persistent optimistic forecasts indicate that the government providing short-term political goals, either pressure of lobbying groups, tries to unnecessarily increase the government spending. This leads to regular exceeding of legal parameters of the budget deficit, that is, the weakening of fiscal discipline.

Analysing the asymmetrical effects of fiscal imbalances, it is worth noting that they are determined by the dynamics of macroeconomic parameters, which are changing under the influence of stochastic conjuncture impulses (shocks) and are fundamentally different in the character formation. Accordingly, it is feasible to distinguish the three categories of variables.

1. Indicators of external conditions (prices of export and import goods, dollar and euro exchange rates. Interest rates dynamics in the global capital market, and so on.), which act solely as exogenous supply shocks (for their forecasting it is important to use assessment of international organizations and major international companies).

2. Indicators undergoing correction, the values of which are largely determined by the decisions of the government and the central bank (although it should be noted, that these decisions essentially depend on the values of exogenous variables). It is primarily meant the inflation and the exchange rate. Forecasting of these variables must be linked to the assessment of the authorities' response (political shocks) to changing of external conditions.

3. Derived / secondary variables which are generally determined by a combination of external variables and the indicators amenable to correction (for example, the volume of imports or exports, the value of profits and wages, etc.).

Summing up the mentioned above, we note that the main trends of public finances of most countries in the medium term will be determined by asymmetri-

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[4] Alternation of understatement and overstatement of some indicator shows the casual nature of forecasting, while prevailing of overstated or understated forecasts shows their systematic deviation from actual indicators.

[5] Thus, for example, A.Auerbach in his famous paper showed that the forecast of the USA Federal Budget revenue systematically understated (conservative approach) at B.Clinton's Presidency (1993–1999) and systematically had been overstated before (1986–1992) (Auerbach, 1999).

cal effects and scenarios for post-crisis recovery of the European economy and internal asymmetric shocks.

Divergence of public finance management

Transformation of macroeconomic policies in the context of globalization and structural reforms that are in the world over the last decade shows the fundamental trends to strengthen institutional mechanisms for implementing national policy in the area of public finance, oriented towards efficiency, sustainability and reducing vulnerability to external challenges and threats. Restart of formal and informal institutions of public finance management acts now as an integral part of modern philosophy of state formation.

The theoretical success grounding in the globalization of national productions suggests sharing the experience of introducing new institutional architectonics of macropolicies in the area of fiscal policy, public finance and budget. The lack of specific theoretical postulates, well-defined coordinated taxation transformation, intergovernmental transfers, expenditures and borrowings lead to new fundamental risks.

The presence of new risks and threats to the long-term sustainability of public finances intensifies interest in the complete renewal of the institutional design of public financial management.

The realities of modern social and economic life show that it isn't the capital that will dictate the terms to national governments, but the developed bureaucratic state machines that manipulate the thoughts of millions will conduct economies. This does not mean that we are going to communism. Private property will remain the foundation of the society; however, the capital itself is not able to deal with the global financial crisis, illegal immigration or global warming. Solution of macroproblems to stabilize public finances, affecting the interests of each and all without exception, requires some restriction of individual freedom. In this sense, humanity will move into the future, looking back into the past, separating from the liberal dream of absolute freedom.

After the global crisis the question about the role of government in managing economy will not be actual, but the solution of the classical problem of market economy: how the rich should share with the poor, because every time the beginning of a systemic crisis laid in the plane or redistribution of creating visibility of wealth redistribution. The «New Deal» of Roosevelt, that took the US out of the Great Depression, provided for the redistribution of benefits by the state. Thus, the increased taxes and social programs allowed taking away the profits of large companies and directing them to the most vulnerable people. Then there occurred a sharp decrease in the rate of profit throughout the world, the companies with profitability in the hundreds of percent lapsed, the share of total wealth in the US belonging to 1% of the richest households decreased from 35% in 1940 to 14% in 2010. The arrival of neoliberalism created the visibility of the wealth redistribution. Against the background of stagnant real wages the hired workers were offered a compromise in the form of distribution of shares as a bonus to their salary. It also enabled to tie the employees to a large proportion of capital. That model along with the growing consumption could actually provoke a crisis a decade ago. Having realized a possible threat, the United States in the mid-1990s placed their stake on loans, which allowed the government to give a number of benefits to people without reducing business profit. Nevertheless, it was only a temporary solution.

Nowadays the world is on the verge of a new round of social market state. In the short term, the role of government in managing the economy will grow, but the corporations do not want to voluntarily feed the workers worldwide. Although the steady growth in demand is the basis of market economy, but without the growth in real incomes of people the consumption could not increase. Thus, there is need either for new technologies that enable to preserve the growth of profit and wages at the same time, or for a new «social tax contract», which will force the corporation to adapt to new conditions of redistribution.

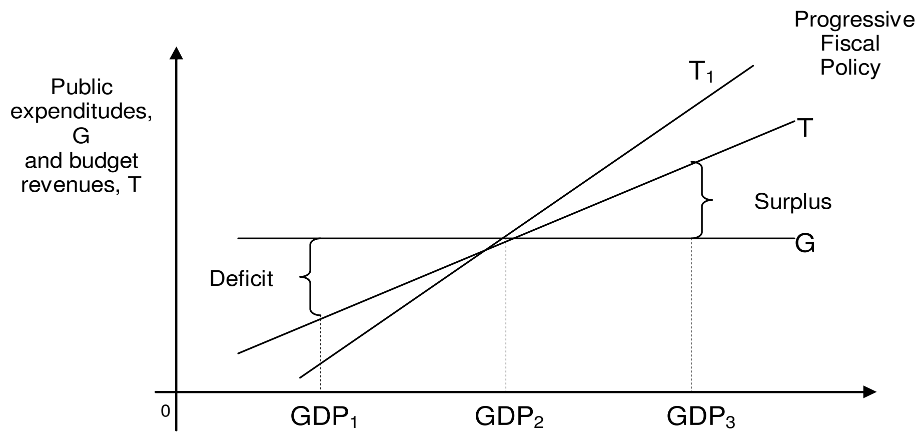
The emergence of new crisis phenomena for the functioning of the economy in Ukraine, which coincided with the deepening of global economic crisis, has once again exacerbated the problem of finding the effective financial tools to overcome the negative trends in socio-economic development. As is known, the state by public finances may, on the one hand, adjust the flows of market capital movement, and on the other – initiate necessary social and economic changes through creating financial provision of budget expenditures. It is only necessary to balance the interests of all participants of the redistributive relations, so as to ensure maximum tax revenue with minimal negative impact of the treasury on the economic activity of taxpayers. However, it is not easy to implement that in practice, even in a developed market economy, not to mention the difficulties of tax optimization in emerging economies.

There should be always found a creative consensus that combines the necessary with the possible, balances the conflicting interests of the society, solves conflicts between short- and long-term interests of specific social groups, between fiscal needs of the center and the regions, between taxpayers and recipients of budget funds, and between consumers and producers. If potential conflicts are not mitigated by using the policy tools it will be much more difficult to reach a compromise. Moreover, all or almost all will be pleased with the results (redistribution of GDP) approximately to the same extent. Only that kind of compromise can serve as the foundation for building a qualitatively new long-term social construction.

Figure 1 will help us to understand how to create built-in public finance stability. Public expenditures are fixed and are not dependent on the level of GDP. The budget revenues vary with GDP changes. The dependence between the size of state budget resources and GDP is reflected by T upline.

Figure 1

Built in stability of economy



Source: (Krysovatyy, Lutsyk, 2013).

The economic importance of relationship between budget revenues and GDP is obvious when taking into account the following two aspects:

- taxes reduce spending and aggregate demand;
- in terms of stability it is desirable to reduce spending when the economy moves to inflation, and to increase spending during the recession.

When in the phase of booming the GDP increases, the budget revenues automatically increase, and as far as they reduce expenditures, they impede the economic growth, that is, if the economy moves to a larger GDP, the budget revenues automatically increase, causing changes in the budget in the direction from deficit to surplus, and reduce the overall amount of expenditures.

And conversely, when the GDP decreases in the phase of recession, the budget revenues automatically reduce, which increases expenditures and mitigates the decline. With the GDP decreasing the budgetary resources shrink, and the budget changes from surplus to deficit. Figure 1 shows that a low GDP_1 automatically causes a stimulating budget deficit; a high, probably inflation GDP_3 level automatically induces the deterring budget surplus.

The graph shows that the scale of automatic budget deficits and surpluses, and, consequently, the built in stability depends on accordance of changes in public finances and changes in GDP. If state revenues dramatically change with the changes in GDP, the slope of the T line on the graph is steep, and the vertical distance between T and O – deficits or surpluses – large. And conversely, if the budget revenue has not significantly changed in the event of changes in GDP, the slope is slanting, and the built in stability – low.

The built in stability allows reducing the depth of fluctuations in business activity, but the embedded stabilizers can only reduce but not adjust, significant changes in the GDP equilibrium. The inflation or recession adjustment often requires a discretionary fiscal policy, that is, changes in the mechanisms of formation of budgetary resources and organization of fiscal administration.

Fiscal interests are not limited to the accumulation of funds for the state's benefit (it is a narrow interpretation of this notion), since the implementation of state functions does not end there. The formation of financial assets provides the state with the resources necessary to implement its functions. The latter is directly related to expenditures, as far as the state «presents» itself to the public through the expenditures. Levying taxes in the context of the government revenue policy is not a goal in itself for the state activities, but a targeted public institution focused on meeting the interests of society, that is, taxation should be socially oriented at financing public expenditures, related to the state performance of its functions.

The problem arises when the economic situation in the country combines the recession with inflation. In this case, there should be applied at the same time the stimulating and the restraining financial instruments, that is, the manipulation of the state budget should be that, that it could initiate the development of the economy with no impact on price increase. The expression of «manipulation of public revenues and expenditures» does not mean a permanent change in the «rules of the game», but the deliberate setting of fiscal policy tools to achieve a public welfare. The fiscally targeted subjects should have confidence on key fiscal operations of the state – taxing and tax regulation[6].

[6] Intensification of tax policy deterring impact under the resource deficit stimulates the economic agents to reduce the tax base, which leads to ineffective fiscal actions concerning the increase of revenues to the state budget. If we take into consideration that the changes in state expenditures have greater effects on public expenditures than the relevent (in amount) changes in taxing, then we must admit, that the desire to achieve some results through tax policy requires from the state to make money injections apart from the creation of favourable conditions for functioning of economic entities.

Construction of the optimal model of public finances management needs to study the conceptual foundations, specific forms and methods of a long-term and short-term public finance impact on the society. The latter has to be consistent with social and economic problems of the state, their solution capabilities through a policy of budget revenues and budget management, and has to be oriented at historical, national, and cultural characteristics, the degree of state involvement in economic processes, and the development of market relations.

Management of public finances in each country is different also in terms of the fact that it is affected by the mentality of the society, the people's awareness that had been formed by centuries. It's not that the tax increases or cuts in one country will be perceived positively, and in another – adversely. There are meant the forms and ways of expression of psychological reactions to the fiscal actions of the state. If a national type is described as a stubborn individualism, the economic agents of the particular country will resist the actions of the state, defending its interests as long as possible. It should be remembered when possible prospects are considered for application of financial instruments to restart the public finance management.

Scientific studies on transformations in public finance

Modern economic science allows with varying degrees of constructiveness to join the discussion on the policy of centralization or decentralization of public finances, which is held by the state. Entrepreneurs and their supporters in the legislative power argued the unacceptably high rates of GDP nationalization, the fiscal authorities and the government officials insisted that its size was quite normal, and further substantial reduction was simply impossible because of the budget expenditures reducing futility, the representatives of local communities declared excessive centralization of budgetary resources and ineffective policies of intergovernmental transfers.

Nevertheless, is enormous in Ukraine centralization of public finances completely normal? What prevents our country to construct the effective financial system under decentralization? Why cannot the central government, and local authorities and businesses come to a reasonable compromise? Is it possible to do such a compromise? Is there a probable «special path» for our country?

To answer these questions, it is appropriate, in our view, to monitor how the social consciousness evolved regarding the role of public finance factor in the development of the national economy.

In the early 80s the American economist Arthur Laffer tried to arrange the useless debate about what the public finances should be. That logic was so simple and a new theory so perfectly reasoning that the administration of Ronald Reagan took it for implementation. Moreover, the ideology of the Laffer curve became the theoretical basis of the new financial and economic policy of the United States – Reaganomics. However, the efforts of its practical implementation led to a negative result, as far as the liberal financial policy failed to solve the budgetary problems of the country. Of course, all those years, the theorists continued to build economic models of fiscal factors that, in practice, gave almost nothing. The experts understood that the main thing was to determine the maximum point on the Laffer curve and identify whereas for that point (on the left or right) the actual level of GDP nationalization was located. Meanwhile, the Ukrainian reformers are without getting from the science any serious and important unambiguous recommendations, conducted experiments with a domestic financial system.

More recently, it became clear that the concept of fiscal Laffer curve suffers from methodological and theoretical inferiority (Balatskyi, 2003; Balatskyi, 2003; Balatskyi, 2004). Now the question has been put in another way. The primary element of public finances is a manufacturer with his attitude towards either increasing or decreasing of the GDP nationalization rate. The relationship between the production volume and the total value of public finances is given by the so-called production curve, which in most cases should have a parabolic shape with a corresponding point maximum. The value of GDP nationalization is the product of the production volume and the tax burden and, therefore, the fiscal curve acts as a derivative of the curve formed by the production curve. In other words, it all depends on the response of the manufacturer, and the budget replenishment is exclusively a kind of technological process.

Schematically, this process is shown in Figure 2.

In scientific literature these points are called Laffer fiscal points of the 1-st and 2-d nature.

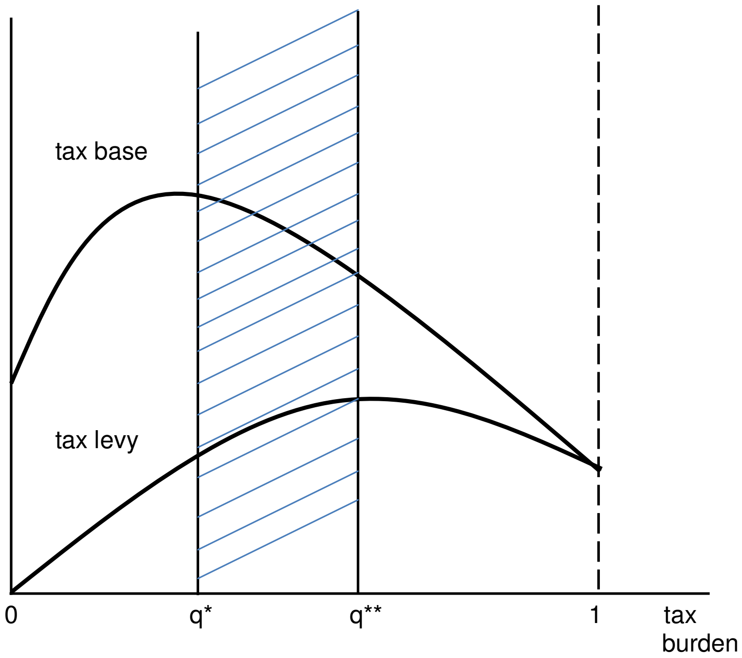
At the first glance it seems that the consideration of one curve instead of two produces little changes in the original Laffer concept. However, it is not so. The matter is that the point of optimal GDP nationalization on two curves does not match and between them there is always some discrepancy. And it is just this discrepancy that provides the new element, which is absent in the classical Laffer theory. It is the «territory» between the two points in fiscal optimum[7] where all the dramatic events are taking place (in Figure 2, this interval is indicated by hatching). In the fiscal area there are revealed deep contradictions between the functions of financial policy and the state. Therefore, getting the actual values of the nationalization of GDP into the «zone of fiscal conflicts» means that the manufacturer does not withstand this level of a state financial expansion any

[7] In scientific literature these points are called Laffer fiscal points of the 1-st and 2-d nature.

longer, and changes to a manufacturing recession, while the budget, despite the difficulties of the manufacturer continues to «fatten». The true problem of any national financial policy is that the actual values of the GDP nationalization always tries to get to the notorious «zone of fiscal conflicts».

Figure 2

Relative positions of productive and fiscal curves



Note. q* and q** – Laffer fiscal points of the 1-st and the 2-d nature.

What gives an understanding of the relationship between the economic growth and fiscal exemptions under the GDP nationalization?

First, it finally dispels the illusions about the possibility of forming optimal policy of public finances. That one does not exist. The decision to change the level of public finances is taken either in favour of the producer, or in favour of the state or local budget. There are no compromises.

Second, it leads to a completely new understanding of the effectiveness of monetary policy, which serves as a measure of the width of the «fiscal zone of conflicts» that is determined by the distance between two critical points in the production and fiscal curves. The greater width of the zone, the larger antagonism is between the functions of the financial system, and fewer chances are to eliminate this antagonism.

International practice of state formation confirms that even the most sophisticated interstate analysis of differences in the composition of public finances, their size and mode of withdrawal does not lead to finding a «philosophical cornerstone» of the national financial system, understanding of its successes and failures. Perhaps it makes sense to transfer the problem into the behavioural plane and to focus on the specifics of national mentality and reaction of national producers, representatives of the central government and local communities to changes in public finances.

The econometric calculations made for Ukraine and the United States, in addition to the actual rate of GDP nationalization allowed to determine the two critical points, beyond which begins the production collapse and, accordingly, the budget collapse (Balatskyi, 2004).

It turned out that the US «fiscal conflict zone» was about one percentage point. This discrepancy is within the normal statistical error. This means that the reaction of public finances in the US to changing of the GDP nationalization rate is almost completely identical to the reaction of producers and, therefore, any «valve overlapping» to the manufacturer through fiscal pressure automatically worsens the fiscal position of the country. A striking example of that synchronicity in the motion of two macro-indices is the «disastrous» 2008, when the growth rate of the US GDP at current prices amounted to 1.2%, and fiscal payments – to 1.0%. However, taking into account the increase of consumer price index, the real GDP decline was 1% and fiscal payments – 0.7%. Thus, the US financial system has an extremely high sensitivity regarding production dynamics. This can be paraphrased in this way: saturation of the US budget depends not so much on the size of fiscal exemptions, but on the size of the taxed base. So, as soon as the production declines and the taxable base shrink, the public finances of the country tumble.

This fact is of great importance. The matter is that compression of the «fiscal conflict zone» to the subtle value indicates a high degree of harmonization of interests of public finances and producers. Accordingly, the antagonism between the functions of financial policy has been almost completely removed. In other words, in the United States, there the principle exists: what is bad (good) for a manufacturer, it is bad (good) for the public finances of the country. It is clear, that in this situation the choice of effective rate of GDP nationalization is greatly simplified, as far as the state should not pursue quite difficult «double» linking of the producers' interests and the consolidated budget. Scientific postulates that are corroborated by the American practice, once again prove the falsity of tax reforms vectors, which are based only on the manipulation of tax rates. The government of Ukraine in its forecasts should focus specifically on the mental reaction of manufacturers and representatives of central and local authorities.

The «fiscal conflict zone» is amounted to 5 percentage points in Ukraine, i.e. 5 times more than in the US. This value clearly indicates the kind of conflict between the industrial and budgetary criteria of fiscal burden optimization. Therein lays perhaps the deep difference of the economy in Ukraine and in the Unacted States. If in the US the manufacturing business interests and financial interests of the state make a certain organic unity of the guidance for the optimal value of GDP nationalization, in Ukraine they are in implacable opposition, that is, what is good for public finances, it is very bad for the manufacturer and vice versa.

It is clear that in this situation a rational way to set up the financial system of the state is simply impossible. No manipulation of the tax rates value solves the problem through the administration mechanism and reformation of intergovernmental transfer's indicators. This is evidenced by the magnitude of the fiscal burden, which in certain periods of time in Ukraine was even lower than in the US (excluding a single social contribution), and in other years – not much higher. Thus, from this perspective, the theoretical situation of public finances in Ukraine can be qualified as quite acceptable. However, this did not alter the main results of the development, that is, existing in Ukraine the conflict between national interests in the face of the state budget, centralized cash funds of the state, local governments and the interests of domestic producers, which had not been resolved in 2015 when the business top managers were involved into the management of financial organs of the state.

All the above leads to the logical question: how did the US manage to create an efficient financial system and, why cannot Ukraine replicate this financial «feat»? What prevents to do this? Who is to blame, that it has not been getting things moving for more than 20 years?

In fact, the problem is not only and not so much in the legislative and executive power and its competence, as in the behaviour of the producer. The matter is, that the existence of an extensive «fiscal conflict zone» indicates some mentality lethargy of domestic producers, which is rather variegated – from oligarchs to small individual businessmen. For example, the excess of the limiting fiscal burden in the US economy, which the manufacturer is able to withstand red-flags the business about the unfavourable fiscal climate, and then such a reduction in the production begins, that cannot be compensated with any growing fiscal burden. It is this uncompromising attitude of the American manufacturer that does not give the US government any alternative for the formation of a sound fiscal strategy. In Ukraine, the drop in a similar situation if it happens is so weak that it is easy to cover through a slight increase in taxes. It seems that even when the amplitude of the fiscal burden reaches its climax, the domestic manufacturers continue to rely on something and work almost in the former regime. And even when the tax burden is reduced to the minimum, business is always either by legal or illegal means, trying to avoid paying taxes. Not surprisingly, that against such an indifferent business the financial system has always the trumps and manages to use them in its play. The study of the origins and reasons for such a fiscal tolerance and mentality of a Ukrainian manufacturer provides for a deeper analysis than just an economic one – they are rooted in the history and psychology of the Ukrainian people, as well as in imperfections of the institution of property created in previous years.

There we make a small but important methodological remark. The thing is that all the mentioned statements are based on the observation of such statistical aggregates as GDP, the budgetary resources of state and local budgets. But we cannot diagnose the direct cause for the GDP reduction by changing its index of nationalization. There are two alternatives for that. The first – the output actually is decreasing due to a drop in business motives of a producer. This effect can be achieved, particularly when the private capital is exported abroad. Second – the output of products decreases on paper (i.e. in statistical reporting), but in fact, it may even increase due to the proportion growing of shadow turnover. To find what there occurred in the country; the additional calculations are required to determine the scale of shadow section. But in any case, it is not an important question for the state budget, as it still does not receive the appropriate tax revenues.

It would be wrong to lay all the blame of the state fiscal miscalculations only on the producer. In the conflict both sides are always to blame. And the fiscal authorities, both central and local, chip in to undermining the Ukrainian economy. So, now, there appear in the national statistics such indicators as the tax arrears in the consolidated budget and the VAT refund arrears. This is the money that the economic agents had to pay, but did not pay; or the money that would have to return to the business for supplementing the working capital. These «small» financial indicators enable to radically revise the policy of Ukrainian financial authorities. Their adding to or subtracting from the actual GDP nationalization allows to evaluate the nominal fiscal burden, which gives an idea of how much the state accumulated funds in the budget as a result of the distribution and redistribution of GDP.

Thus, the creation of an efficient financial system in Ukraine is blocked by ideological and psychological unpreparedness of both, the producer and the central and local authorities, as well as by the reluctance or misrecognition of the need to «narrow down the area of fiscal conflicts». Given the fact that the public finances are both financial and economic, and philosophical and psychological categories, this state of affairs can be changed only due to mentality socialization based on the awareness of the necessity of the part of GDP nationalization and perception of responsibility for the tax price of public goods and transfer payments. It is inappropriate to hope for rapid changes in this process because, as it is known, ideology and psychology do not change quickly. But if we want to reform, we are to obligatory move forward in this direction.

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The article was received on February 5, 2016.