

FISCAL FEDERALISM AND FINANCIAL CRISIS (EXAMPLE OF UKRAINE)

Oleksandr DLUHOPOLSKYY¹

¹Ph.D., Associate Professor Department of Economic Theory Ternopol National Economic University, Ternopol, Ukraine

Abstract: *The majority of the world countries have several administrative-territorial levels of their contemporary state formations, i.e. the central government responsible for reaching the set objectives and settlement of some tasks on the level of the state as a whole, and other levels of state power functioning at regional and municipal levels. The existence of such an institutional structure of state power and administration organs, irrespective of political formation of the country originates the relevant economic branch of a public sector, which is studying its vertical pattern, i.e. fiscal federalism. The subject of the latter is a normative and positive analysis of the functions distribution among different levels of state power, as well as the ways of those levels interaction by means of such instruments as interbudget transfers.*

Keywords: *Fiscal federalism, transfers, public sector*

At the moment, the greatest challenge of subnational governments budget revenues in Ukraine is their significant dependence on the state budget. The greatest ratio of budget expenditures of local organs of power accounts for delegated authorities. At present, the local organs of power are lacking sufficient financial resources to organize economic and social management at sub national level, which is conditioned by a number of reasons, like the following: high ratio of financial resources concentration in the state budget of the country, which reduces the importance of regional and local budgets in meeting vital tasks; tendency to determine the expenditures down the budget system without respective support of revenue sources, which brings subsidizing of most of the local budgets.

The foreign practice of budget system formation and ways of financing of local organs of power allows to draw certain conclusions concerning the measures directed at improvement of conditions for local budgets formation and adaptation of foreign models of fiscal federalism to the economic conditions in Ukraine.

First, it is necessary to intelligibly divide the competences as for concrete tasks between the central organs of power and local authorities, with gradual transfer to decentralization of national finances.

Thus, specifically those expenditures should be budgeted which are to meet all-national needs: e.g. defense of the country, support of legislative and executive power, development of fundamental science, structural reformation of economy. It is more rational to solve the financial problems of local level at the expense of relevant subnational budgets

revenues (like, for example, tax on real estate, duties on environmental pollution, etc.).

Second, the mechanism of inter-territorial fiscal equalization needs to be improved. The practice showed, that the method of local budget regulation via exclusion of excess budget funds to the budget of higher level has a lot of disadvantages. So, apart from negative effect it produces on income base of local budgets, it also deprives the local authorities incentives to increase their incomes. Proceeding from the foreign practices, it is necessary to form special budget funds for fiscal equalization of territories. At the moment, the necessity arose to determine the substantiated standard budget sufficiency of every region, district, and city with regard to economic, social, natural and ecological state of respective territories.

Third, the practice of overseas countries proves, that for the first 3-5 years simplified charts of grant distribution happen to be sufficient.

The sequence of mechanism complication for grant distribution will be like the following: national distribution of subsidies (without taking into account the number of residents) – introduction of base coefficients for equalization of financial needs with the aim of providing the opportunities to the municipalities to “cover” their expenditures (combination of the equalizing in expenditures with that in incomes) – further complication of the mechanism through introduction of additional criteria for standardized expenditures equalizing.