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FINANCE OF LOW-URBANIZED TERRITORIES AS AN INTEGRAL PART OF THE PUBLIC FINANCE SYSTEM

ФІНАНСИ СЛАБОУРБАНІЗОВАНИХ ТЕРИТОРІЙ ЯК СКЛАДОВА ЧАСТИНА СИСТЕМИ ПУБЛІЧНИХ ФІНАНСІВ

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The article analyses the historical preconditions for the formation and development of local finances. Diverse directions of development of local finances in different countries, in different economic systems, are identified. The signs of public finances at the level of low-urbanized territories in modern conditions are formulated. It is proved that the formation of local finance subsystem as a component of public finance cannot be considered in isolation from the processes of formation of local self-government: the subjectivity of local authorities itself, whose decisions should have an overwhelming influence on the current socio-economic processes in a community and determine strategic priorities for its development, cannot be implemented without proper financial support.

Keywords: local finances, low-urbanized territory, local development.

У статті аналізуються історичні передумови становлення та розвитку місцевих фінансів. Визначено різноманітні напрями розвитку місцевих фінансів у різних країнах, у різних економічних системах. Сформульовано ознаки державних фінансів на рівні слабоурбанізованих територій у сучасних умовах. Доведено, що формування підсистеми місцевих фінансів як складової державних фінансів не можна розглядати у відриві від процесів формування місцевого самоврядування: суб'єктність самої місцевої влади, рішення якої мають справляти переважний вплив на діючу відкриту соціально-економічну систему. Економічні процеси в громаді та визначення стратегічних пріоритетів її розвитку неможливо реалізувати без належної фінансової підтримки. Обґрунтовано, що на практиці при визначенні пріоритетів фінансування часто суб'єктивний фактор переважає над об'єктивними. При цьому, механізм функціонування фінансового забезпечення, організація фінансових відносин та грошові потоки не існують у відриві один від одного, хоча і підпорядковуються цим об'єктивним законам. Вказано, ці відносини організовують конкретні групи зацікавлених сторін, які при цьому керуються великою кількістю політичних, економічних та гуманітарних факторів, беручи до уваги як суспільні/громадські, так і особисті інтереси. Тому доведено, що фінансова політика у публічній сфері – це завжди переплетення широкого спектру різноманітних інтересів політичних партій і державних структур, центральних і місцевих органів влади та уряду, різних верств населення тощо. Проілюстровано, що розвиток української економічної науки в умовах незалежності, вивчення теоретичних досягнень фінансової думки та приєднання України до Європейської хартії місцевого самоврядування закономірно вплинули на погляди вітчизняних науковців на місцеві фінанси. Не викликає при цьому сумніву об'єктивність цієї категорії, її вирішальний вплив на повноцінне функціонування інституту місцевого самоврядування як необхідної основи демократичного суспільства. Визначено, що використання всього спектру фінансових інструментів може стимулювати органи місцевого самоврядування сприяти розвитку підприємництва та залученню інвестиційних ресурсів, а отже, і розвитку слабоурбанізованої території.

Ключові слова: місцеві фінанси, слабоурбанізована територія, місцевий розвиток.

В статье проанализированы исторические предпосылки создания и развития местных финансов. Сформулированы признаки публичных финансов на уровне слабоурбанизированных территорий в современных условиях. Доказано, что формирование подсистемы местных финансов как составляющей публичных финансов невозможно рассматривать в отрыве от процессов становления местного самоуправления: сама

субъектность органов местной власти как тех, решения которых должны оказать определяющее влияние на текущие социально-экономические процессы в обществе, определять стратегические приоритеты ее развития, не может быть реализована без надлежащего финансового обеспечения. Определено, что использование финансовых инструментов может стимулировать органы местного самоуправления к содействию развитию предпринимательства и привлечению инвестиционных ресурсов, то есть к развитию слабоурбанизированной территории.

Ключевые слова: местные финансы, слабоурбанизированная территория, местное развитие.

General problem statement and its connection with scientific and practical objectives. The economic efficiency of the production of goods under the influence of market mechanisms has been proved by many years of experience of successful development in many countries of the world. It is also economically feasible to produce public goods, which are the goods produced at the public and municipal funds, in a competitive environment. In addition, an indicator of the effectiveness of providing public goods to the population is the degree of satisfaction of their needs. This indicator increases if the production of public goods is located near consumers, and residents of a territorial community have the opportunity to directly influence the decision on the production.

The organization of efficient production of public goods is the main economic prerequisite to the existence of local self-government and local finance, as well as, accordingly, of the financial decentralization processes. Nevertheless, the territorial finance in modern conditions in Ukraine partly continues to function on the foundation of the administrative command system. This problem is especially relevant for low-urbanized territories, which the authors define as administrative-territorial units of the basic level with a predominant (more than 50%) share of the rural population, united by common economic and social interests of development. In many cases, they are small territorial communities with limited financial resources

Analysis of recent research and publications concerning discussion. Scientists and practitioners discuss the distribution of powers between the levels of authority, revenue sources, and inter-budgetary transfers. Studies of the territorial finance functions remain unaddressed. They are the role that the territorial finance plays in relation to the country's and society financial system. The principles of building local finance are poorly examined. They are the main rules based on which the financial foundation of local self-government should be developed, and local and regional cases should be resolved. Insufficient attention is paid to the study of structural elements of the local finance system. This affects

further scientific developments concerning their functioning. The formation of local finance subsystem as a component of public finance cannot be considered in isolation from the processes of formation of local self-government: the subjectivity of local authorities itself, whose decisions should have an overwhelming influence on the current socio-economic processes in a community and determine strategic priorities for its development, cannot be implemented without proper financial support.

Taking this into consideration, as separate stages in the development of the local finance system in Ukraine, its origin as a phenomenon should be considered through the beginning of the self-government practice. Such practice on the territory of modern Ukraine can be mentioned recalling the times of Kievan Rus, the Principality of Galicia-Volhynia, continuing the times of the Cossack state, the Austro-Hungarian and Russian Empires, and the Ukrainian People's Republic.

Formulation of the article's purpose. The purpose of the article is to define the role of local finances as a component of the public finance system. Special emphasis is placed on ensuring the financial capacity of sparsely urbanized areas.

The main research material. Obviously, that forms and legislative grounds of the local self-government and local finance activities that took place in the specified period cannot reflect their modern interpretation. A gradual change in ideas about the essence of local finance was carried out from the perception of them as:

– financial economy of territorial units: this approach forecasted the determining influence of central (state) authorities on estimating the financial resources to be distributed locally, the structure and directions of expenditures in accordance with the needs to ensure the functioning of administrative-territorial entities at various levels;

– a set of conditions for meeting the needs of local self-government: in this interpretation, the role of local authorities got more significance, they became ones of the main local government entities, in particular dealing with the issue of collecting and distributing financial resources defined within the current legal framework to

ensure the effective implementation of their own functions.

– the system of economic relations of local self-government with all possible external and internal subjects in relation to the territory: in such a paradigm, the role of both local self-government bodies and its financial tools is fundamentally different and as wide as possible. In the context of the formation of financial viability, it is not limited just by local budget as a form of formation and use of monetary resources that are intended to provide tasks and functions assigned to local self-government: it also includes opportunities and practices for attracting external financial resources on a paid and/or free-of-charge basis. In the context of the importance of local finance in the functioning of territorial communities, they are not considered exclusively as a system for ensuring their vital activity: they rather perform functions similar to the finance of economic entities, in the case of which finance plays the role of one of the components of the instrument for ensuring the effectiveness of activities, development, and increasing the level of competitiveness of the management object.

Moreover, the financial economy of local public amalgamations can be considered to be much earlier in its origin and older in its origin than the public economy. This position is based on the fact that at a time when the role of the state as an institution was to perform only an elementary task of protecting the country from an external enemy and it did not take care of internal welfare, local communities showed concern for meeting the urgent needs of internal life.

Among the public needs, there are needs that neither private individuals, nor the state, nor free contractual unions can meet due to either the impossibility of excluding anyone from consumption, or the difficulty of taking into account local peculiarities and living conditions of the population, or the lack of forced fiscal power, etc. In Western Europe, with the fall of the feudal and guild system of the Middle Ages, on its ruins, as it is known, a state developed, imbued with the ideas of absolutism, which represents an unfavourable ground for the normal development of the local economy. However, in the 19th century with the transition to the modern system of the rule of law and with the development of its activities in favour of individual and public freedom, the need for decentralization was getting bigger and bigger in the performance of some state functions, and in understanding of the involvement of broad participation of local amalgamations.

That is why the study of local finance, as well as historical aspects of the theory and practice of these economic relations, remains relevant for today, which will allow to better understand their essence. In addition, the need to study local finance is dictated by the causal relationships between finance and decentralization processes in the historical aspect. This will justify the correct choice of the subject of research and allow to draw correct conclusions about the current financial relations of local and regional self-government bodies.

The first mention of local finance, considering it as a separate part along with public finance, appeared in the 18th century in the works of A. Smith and his contemporaries. In the context of the author's research, it is worth noting that they studied the economy of territorial communities, noted the necessity to grant them autonomy, in particular in the field of finance. The doctrine of local finance as a set of theoretical provisions on the financial economy and financial activities of local authorities was formed in the 19th century. This was related to the completion of the formation of local self-government bodies in most countries of Western Europe and North America, the constitutional recognition of the rights of communes, communities, municipalities, regions, provinces, states and other administrative territorial entities.

The main research on the essence, role, and principles of local finance has been carried out since the end of the 19th century. It was then that the doctrine of the financial economy of the community/union (local finance) was formed.

Representatives of German economic thought defined the community as a public-private union. Hence, K.H. Rau identified that the economy of the communities due to its many sides belongs to finance, – it is a state economy in a small form; – due to its other sides it looks like a huge private economy. W. Vocke shared this opinion: "the economy of communities, though being a subject to financial science, however not in a full size. Public finance can only apply to activities aimed at state purposes, and at funds spent on these purposes. Everything else is a private economy or should be treated in the same way as the latter" [1].

According to the Brockhaus and Efron Encyclopaedia "the set of material resources necessary to meet the needs of the state is public finance, and one to meet the needs of various civil unions (cities, municipalities, etc.) is local finance. Accordingly, the activities of state and public bodies aimed at the production of these

material resources constitute the content of the state and local financial economy" [2].

Since the end of the 19th century, the theoretical interpretation of local finance has been changing. It was then that the doctrine on the financial economy of the community/unions (local finance) was formed, a significant contribution to which was made by the German school, whose representatives are L. Stein, A. Wagner, R. von Kaufmann. It is a community where a state is formed: a community as a people's state in miniature, combining with other communities, develops regional unions, regions, states, provinces, cantons; then the process of combining a community into a state, and financial resources into public financial resources takes place.

A surge of scientific interest of national scientists in the essence of local finance was observed from the last decades of the 19th century to the 30s of the 20th century. The achievements of the scientists can be attributed to both positive and normative economics.

At the beginning of the 20th century, the definition of local finance as a local financial economy of administrative divisions became widespread. Local finance started to be considered as a set of material resources that is at the disposal of these divisions to achieve the goal of their activities.

In the 20th century the scientific literature began to talk about the existence of local finance in the financial systems of new independent states. Along with the notion "local finance", such concepts as "regional finance" and "territorial finance" are used. Scientists of that period of time stated that the finance of local authorities is nothing more than a system used by administrative divisions within a government structure to receive resources for performance of their functions [3].

The growth of scientific interest at the beginning of the formation of Soviet government was associated with the restoration of the institute of local finance. In particular, the researchers studied the theoretical foundations and practice of local finance institution. The first regulatory document that established the foundations for the local finance institution of the Soviet state was the Temporary Regulation on Local Finance of 1923 (the following edition – 1924).

The regulation defined such issues as the composition of local budgets; the rights and obligations of government bodies at various levels in matters of local finance; the procedure for local taxation; the mechanism for subsidizing local budgets from national funds; the procedure for drawing up, approving and executing local

budgets. In 1926, a new Regulation on Local Finance was published, according to which local finance was recognized as a component of the unified financial system of the country. The regulation defined not only the revenue and expenditure parts of local budgets, but also the mechanism of budget regulation. The practice of forming subvention funds and regulatory funds was initiated.

However, in the early 1930s, the centralized foundations in the management of the economy strengthened, the sphere of functioning of local finance gradually narrowed, the dependence of local budgets (as the main local financial institution) on the state budget increased, the share of local revenues decreased, local taxes and fees remained negligible, which, in fact, did not play a significant fiscal role. The decision to include local budgets, as well as state social insurance budgets, in the unified state budget in 1938 was a logical consequence of the strengthening of the process of centralization of state financial resources in the country. This decision cancelled the entire previous stage of formation of the institute of local finance, which was initiated during the years of the new economic policy of the 1920s [4].

In the 1930s and 1940s, textbooks and manuals were written that theoretically substantiate the essence and role of local finance and local budgets, and summarize the practice of their functioning in Soviet times. In the 1960s and 1980s, the problems of drawing up local budgets and using budget funds, as well as improving budget regulation, became particularly relevant.

However, the Soviet financial literature of the post-war period asserted the view that local finance is an element of the financial system of bourgeois states and developing countries. Hence, in the financial and credit dictionary (editors V.F. Grabuzov and N.V. Garetovski), published in Moscow in 1984-1988, there was a note that local finance in the developed capitalist countries and developing countries is the relationship which helps local governments to mobilize, distribute and use part of the national revenue in according with the functions assigned to them.

Soviet financial science was based on Marxist-Leninist ideology. Its difference from the individualistic concept of financial science of the West and domestic researchers of the second half of the 19th – early 20th centuries was the opposition of finance and financial policy. Finance was considered as an element of the basis. It was defined as a special sphere of industrial relations.

Instead, financial policy was classified as a secondary structure. Financial policy was based on the peculiarities of financial relations, which were considered as its basis and the essence which it cannot change. Accordingly, only financial policy was studied with elements of a secondary structure, which included state institutions [5]. On the contrary, "finance is a value category and, as such, is not the subject of science that studies secondary structure". Since the secondary structure was determined by the basis, financial policy was considered as minor.

The experience of recent years has clearly shown that in reality, quite often the subjective factor prevails over the objective factors. Nevertheless, the mechanism of financial functioning, the organization of financial relations and the cash flows, do not work by themselves, although they are the subject to these objective laws. They are organized by specific subjects, who are guided by a lot of political, economic and humanitarian factors, combining both public and personal interests. Therefore, financial policy is always an interweaving of a wide array of diverse interests of political parties and government structures, central and local authorities and governments, various segments of the population, etc.

Economic subjectivism as a separate paradigm of economic thought, which has taken a dominant position in scientific researches, on the contrary, on the pattern of formation of a market equilibrium price, explains the features of redistributive processes at local and regional levels by the democratic expression of the will of the population. Much attention in researches is paid to the democratic mechanism of decision-making, as "budget determinism is a political, not a market process" [6]. The individualistic concept of financial science puts individual preferences and individual utility at the root of theoretical research.

This is justified by the fact that the individual fully supports the state, local and regional administration apparatus at their own expense, by paying taxes, fees and other payments. Only they are the bearers of the burden of financial support for production and the provision of public goods, which means that they should have the right and opportunity to influence financial policy. Thus, financial policy is not opposed to finance.

Hence, during the 1930s and 1980s in the Soviet Union, the category of local finance gradually lost its significance and was practically not used either in the economic literature or in legislative documents; in many cases, local finance was identified with local budgets.

In the 1980s, the retreat from command and administrative methods of government and the creation of the conditions necessary for the development of market foundations led to a range of changes in the economic life of the country. On April 9, 1990, the Union Law "On general principles of local self-government and local economy in the USSR" was adopted [7]. It created the necessary basis for the adoption the Law "On the budget system of the Ukrainian SSR" on December 5, 1990 and the Law "On local Councils of members of parliament of the Ukrainian SSR and local self-government" on December 7, 1990 in Ukraine [8]. The adoption of these laws marked the revival of the institution of local self-government in Ukraine, and therefore the development of the local finance system. However, in practice the financial insolvency of low-urbanized areas remained almost complete.

The objectivism of the Soviet school influenced the perception of local finance essence by domestic scientists, which began its revival in the early 1990s. The necessity of local finance in the context of creating the foundations of market economy was recognized.

The development of Ukrainian economic science in the conditions of being independent, the study of the theoretical achievements of Western financial thought, and Ukraine's accession to the European Charter of local self-government naturally affected the domestic scientists' views on local finance. Today, there is no doubt about the objectivity of this category under the market conditions, its decisive influence on the full functioning of the institution of local self-government as a necessary foundation of a democratic society. Famous Ukrainian scientist O.D. Vasylyk, who was one of the first to study theoretical and practical issues of local finance, emphasized, "Local finance is an objective phenomenon, since the implementation of the functions assigned to local self-government requires the availability of appropriate funds of financial resources at their disposal" [9].

Figure 1 shows a comparative analysis of the structure of tax revenues to local budgets of selected European countries, including Ukraine [10; 11].

We can say that Ukraine, especially during the last six years, has chosen the path of European integration de facto: although the sources of financial capacity of local self-government in some European countries may differ, but in each case (including Ukraine) contains significant part of the tax base for the formation of the local budget as the main integral part of the local finance system.

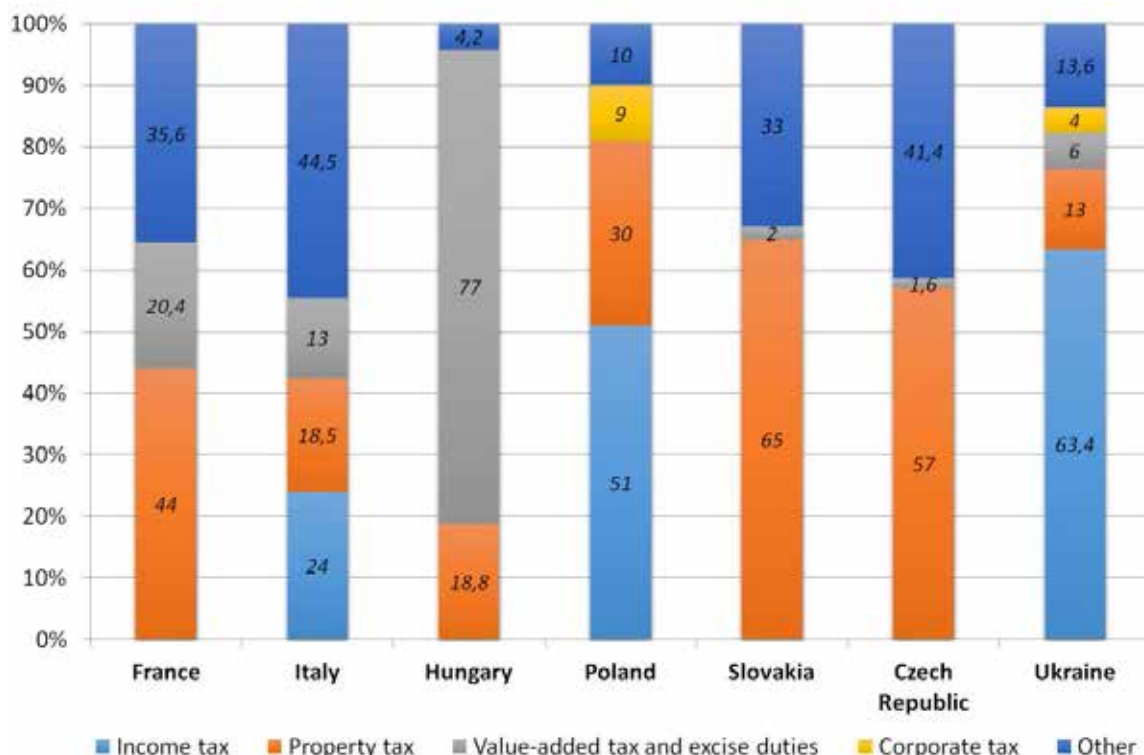


Figure 1. Structure of tax revenues to local budgets selected European countries

We suppose that under current conditions, the signs of public finance at the mesoeconomic level (as well as at the level of a territorial community) should be:

1. Monetary form of relations. Local, regional and territorial finances are always monetary relations, although an exception should be recognized – the involvement of peasants in performing in kind duties until the 20th century in Russia and France. However, in any case, in kind duties were counted in the payment of monetary duties, meaning that they had a monetary dimension.

2. One-way movement of value from one entity to another. At the first stage, financial resources of local and regional budgets are formed by means of taxes, fees, mandatory payments, and loans. At the second stage, financial equalization and budget expenditures are carried out. If local and regional self-government bodies act as economic entities (through the activities of municipal enterprises, institutions and organizations), then we observe other stages of formation (gaining of profit, investments, credit, income from the sale of national wealth owned by local and regional self-government bodies, payment for provided services) and spending financial resources.

3. Free movement of value. That is, the distribution and redistribution of the share of gross domestic product is carried out without simultaneous equivalent compensation, which distin-

guishes local, regional and territorial finances from other economic categories and relates them to other financial categories.

4. Distribution and redistribution nature. The exchange nature is not typical for local, regional and territorial finances. They only distribute and redistribute a part of the gross domestic product in society, sometimes the national wealth, which is owned by local and regional self-government bodies (experience is widely used in modern Ukraine).

5. Formation of financial resources and centralized and decentralized funds of financial resources, as well as their expenditure. Public local, regional and territorial finance are associated with the formation of centralized funds of financial resources. Financial resources of municipal enterprises are formed in stock and non-fund forms.

6. Compulsory nature. Even at the beginning of the 20th century, scientists emphasized that "neither free competition nor the law of supply and demand take place, on the contrary, here predominate the enforcement power, monopoly principle, political and social motives".

7. Regulated form of financial relations. Any financial activity of local and regional self-government bodies is regulated by law, subordinate acts, decisions of local representative authorities, charters, regulations of municipal institu-

tions, etc. This feature is related to the control function of local, regional, and territorial finances.

8. Mandatory participation of local self-government bodies and residents of the territorial community as subjects of economic relations that characterize territorial, regional, and local finances.

To ensure these functions, it is necessary to ensure financial decentralization as a factor of influence on the development of the ability of administrative-territorial entities at the basic level.

As economists rightly note, it is decentralization that ensures the effective use of the resource and management potentials of regions and administrative-territorial units at the local level "in the context of change of state regional policy, which involves shifting the emphasis from ensuring proportional development of regions to the predominant financing of sustainable, innovatively active territories, which can become locomotives of growth and recovery of the economy of the whole country from the crisis" [12]. It foresees the transfer to the local and regional levels of those powers supported by resources that local self-government bodies are able to independently master in order to perform the functions assigned to them.

Financial decentralization foresees the following areas of reformation:

- decentralization of revenues, which involves assigning to local budgets their own revenues which are sufficient for local self-government bodies to perform the functions assigned to them;
- decentralization of expenditures, which foresees providing financial resources to local self-government bodies to perform their functions;
- procedural independence, which means the right of local self-government bodies to independently form and approve, and further execute budgets, submit reports and conduct effective control.

Given that the development of territories is heterogeneous, the expediency of introducing financial decentralization is due to increasing the efficiency of the state budget system through the organization and provision of public services in such a way that they correspond to the preferences of the population as much as possible" [13]. As the practice of many countries shows, the most effective is the organization of a local finance system based on the principle of fiscal efficiency, according to which consumers of public goods must financially ensure their provision by means of tax payments. According to this approach, firstly, the tax burden does not go beyond the relevant territorial community, and

secondly, the level of taxation determines the level of receipt of public goods and services by residents of the community. The main advantage of building a system of local budgets based on the principle of fiscal equivalence is incentives for effective and balanced decisions of local self-government bodies on the use of their own financial resources, which determines the economic and social development of an administrative-territorial division.

In our opinion, it is appropriate to emphasize such an advantage of financial decentralization as a "tight budget framework" for the functioning of local self-government bodies, which encourages them to optimize revenues and increase the tax capacity of territorial communities.

Hence, the main arguments in favour of financial decentralization are its ability to ensure horizontal and vertical budget competition, which will contribute to the economic development of territories and regions and improve the quality of public services, as well its possibility to increase allocative efficiency from the provision of such services, that is, focusing on ensuring the individual preferences of residents of the territory. Despite this, financial decentralization contributes to the emergence of a range of economic and political risks associated with shifting attention to meeting local interests and reducing the weight of regional and national ones.

Conclusions of the research and prospects for further development. Almost unchanged components of financial decentralization in all countries where administrative-territorial reform has taken place with a focus on strengthening the subjectivity of local self-government are the following changes:

1. Consolidation of small low-urbanized territorial communities. This step was the beginning of the decentralization reform in most Western countries. Its focus is to ensure compliance of the financial capabilities of local self-government bodies with their functional powers. The experience of European countries shows a direct dependence between financial viability of an administrative-territorial division and the population on its territory. Consequently, the EU countries introduced a system of nomenclature of territorial statistical divisions based on the population criterion (NUTS). The system foresees five levels of territorial statistical units, the first three of which are regional (NUTS-1, NUTS-2, NUTS-3), and the other two are local units of EU statistics (Local Administrative Units: LAU-1 and LAU-2).

2. The introduction of a clear classification of administrative-territorial units with the determi-

nation of the number of residents of such divisions corresponds to the need to form self-sufficient and financially independent units in the system of administrative-territorial structure. "The size of the primary unit is optimal, when it is possible to meet the basic needs of the population and self-sufficient functioning. Those communities that do not have sufficient resources for development should be consolidated". On the other hand, given the course taken by Ukraine towards European integration, it is important to take into account the experience, requirements and norms of EU member states in the issue of administrative-territorial structure.

3. Differentiation and legislative consolidation of expenditure and functional powers of central authorities and local self-government bodies. The main task in this case is to clearly define the scope of authority at different levels of government and eliminate duplication of their functions. At the same

time, the authority to provide public goods and finance relevant expenditures should belong to the same level of government, which will allow establishing the responsibility of the relevant authorities for performing the functions assigned to them.

4. Ensuring the financial viability of low-urbanized territories. Among the tools for ensuring financial viability, the main ones are:

- distribution of revenue sources by levels of the budget system;
- the level of tax capacity and tax autonomy of self-government bodies;
- transfer policy of the state;
- monitoring and control over the use of financial resources of local budgets.

The use of these financial instruments can encourage local governments to promote the development of entrepreneurship and attract investment resources, and, consequently, to develop the territory.

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