

JEL H 320, H 390, O 230

DOI: 10.31264/2545-093X-2018-2(2)-15-25



**Valentyna Martynenko, PhD, Associate Professor,
Deputy Director of the Educational and Scientific Institute
of Accounting, Analysis and Audit**

martynenkovv@ukr.net

ORCID: 0000-0001-9078-8345

Researcher ID: R-7732-2019

SPIN: 7543-2870

*Department of Economic Theory University of State Fiscal Service of Ukraine
(Irpın, Ukraine)*

STUDY OF INTERNATIONAL EXPERIENCE IN THE IMPLEMENTATION OF FISCAL POLICY IN THE CONTEXT OF FINANCIAL DECENTRALIZATION

BADANIE MIĘDZYNARODOWEGO DOŚWIADCZENIA W REALIZACJI POLITYKI FISKALNEJ PAŃSTWA W WARUNKACH DECENTRALIZACJI FINANSOWEJ

ИССЛЕДОВАНИЕ МЕЖДУНАРОДНОГО ОПЫТА РЕАЛИЗАЦИИ ФИСКАЛЬНОЙ ПОЛИТИКИ ГОСУДАРСТВА В УСЛОВИЯХ ФИНАНСОВОЙ ДЕЦЕНТРАЛИЗАЦИИ

Abstract

This article discusses the features of the implementation of the fiscal policy of the state in the context of financial decentralization, taking into account the experience of both the federal system and unitary states in order to adapt their experience to the realities of Ukraine. The author proves that at the present stage in the implementation of fiscal policy the key place is occupied by financial decentralization. Necessary and sufficient principles of decentralization are formulated and advantages of fiscal federalism are characterized. The importance of financial decentralization creates possible manifestations of its potential, but does not provide an automatic solution to the economic and financial problems of budgetary resources management. In this regard, the author argues that the necessary condition for financial decentralization in the fiscal policy of the state is, at least, to prevent the reduction of the achieved level of public finance management, and to choose the optimal balanced model of its implementation. To do this, it is necessary to determine the range of tasks that can be most effectively solved by the central authorities and adequately financed from the state budget; to determine the tasks that require decentralized solutions. The typical models of distribution of powers between central and municipal authorities, which exist in the world, are analyzed in order to use them as indicators in the implementation of the reform of financial decentralization in Ukraine. In particular,

V. Martynenko

the author substantiates the need for a clear distribution of fiscal powers; informed decision-making; compliance with local priorities; introduction of local government accountability.

Keywords: fiscal policy, financial decentralization, federalism, principle, local authorities, powers.

Streszczenie

W tym artykule omówiono cechy realizacji polityki fiskalnej państwa w warunkach decentralizacji finansowej, biorąc pod uwagę doświadczenia krajów federacyjnych, jak i państw unitarnych, w celu dostosowania ich doświadczenia w realia Ukrainy. Autorem uzasadnione, że na obecnym etapie realizacji polityki fiskalnej kluczowe miejsce zajmuje finansowa decentralizacja. Autor formułuje niezbędne i wystarczające zasady decentralizacji i charakteryzuje korzyści federalizmu fiskalnego. Niespójność znaczenia decentralizacji finansowej kształtuje możliwe przejawy jej potencjału, ale nie zapewnia automatycznej decyzji gospodarczych i finansowych problemów zarządzania budżetowych zasobami. W związku z tym autor dowodzi, że warunkiem koniecznym przeprowadzenia decentralizacji finansowej w polityce fiskalnej państwa jest, co najmniej, niedopuszczenie do obniżenia osiągniętego poziomu zarządzania publicznymi finansami i wyboru optymalnego wyważonego modelu jej przeprowadzenia. Aby to zrobić, należy określić zakres zadań, które najbardziej skutecznie mogą być rozwiązane centralnymi organami władzy i odpowiednio finansowane z budżetu państwa; określić zadania, które wymagają zdecentralizowanych rozwiązań. Analizowane typowe modele dystrybucji władzy między centralnymi i lokalnymi organami władzy państwowej, które istnieją w świecie, w celu wykorzystania ich jako wskaźniki przy realizacji reformy finansowej decentralizacji na Ukrainie. W szczególności, autor uzasadnia potrzebę jasnego podziału uprawnień fiskalnych; podejmowania świadomych decyzji; przestrzeganie lokalnych priorytetów; wprowadzenie odpowiedzialności lokalnych rządów.

Słowa kluczowe: polityka fiskalna, decentralizacja finansowa, federalizm, zasada, władze lokalne, uprawnienia.

Аннотация

В данной статье рассматриваются особенности реализации фискальной политики государства в условиях финансовой децентрализации, с учетом опыта как стран федеративного строя, так и унитарных государств с целью адаптации их опыта в реалии Украины. Автором обосновано, что на современном этапе при реализации фискальной политики ключевое место занимает финансовая децентрализация. Сформулированы необходимые и достаточные принципы децентрализации и охарактеризованы преимущества фискального федерализма. Противоречивость значение финансовой децентрализации формирует возможные проявления ее потенциала, но не обеспечивают автоматического решения экономических и финансовых проблем управления бюджетными ресурсами. В этой связи автор доказывает, что

V. Martynenko

необходимым условием проведения финансовой децентрализации в фискальной политике государства является, как минимум, недопущение снижения достигнутого уровня управления публичными финансами, и выбора оптимальной взвешенной модели ее проведения. Для этого необходимо определить круг задач, которые наиболее эффективно могут быть решены центральными органами власти и соответствующим образом финансироваться из государственного бюджета; определить задачи, требующие децентрализованных решений. Проанализировано типичные модели распределения полномочий между центральным и муниципальными органами государственной власти, которые существуют в мире, с целью использовать их как индикаторы при реализации реформы финансовой децентрализации в Украине. В частности, автор обосновывает необходимость четкого распределения фискальных полномочий; принятия обоснованных решений; соблюдение местных приоритетов; введение подотчетности местных правительств.

Ключевые слова: *фискальная политика, финансовая децентрализация, федерализм, принцип, местные органы власти, полномочия.*

Formulation of the problem. According to international organizations, the decentralization of government authority and public resources can make a significant contribution to improving the efficiency of the entire process of governance and economic development of the country. Decentralization of state power provides for decentralization of tax and budgetary powers or financial decentralization, improvement of mechanisms of interaction of budgets of different levels in the unified budget system of the country, optimization of the budget process at all levels of public finance management.

The study of financial decentralization as a system is considered from the point of view of the organization of management of budgetary resources and multi-level budgetary (and inter-budgetary) relations, identifying relationships and interdependencies between the elements within the system and the entire system with the external environment-society and the economy as a whole.

Analysis of recent research and publications. The results of studies concerning the peculiarities of the implementation of fiscal policy of the state in the conditions of financial decentralization are reflected in the scientific works of such scientists as F. A. Hayek (1945) [1], C. M. Tiebout (1956) [2], J. M. Buchanan (1965) [3], W. E. Oates (1972) [4], B. Weingast, K. Shepsle & C. Johnsen (1981) [5], L. R. De Mello (1999) [6], E. Dabla-Norris (2003) [7],

F. Bos (2012) [8] and others. However, the problem of adaptation of the international experience of fiscal policy of federal and unitary states in Ukraine, which has been implementing the reform of financial decentralization for about 5 years, is not given enough attention, so it requires more detailed research.

Setting objectives. The aim of the article is to develop effective ways to implement fiscal policy in Ukraine, taking into account the best international experience of financial decentralization of the Federal and unitary structure of the state with respect to the empowerment of local authorities and independence of decision-making in the field of public finance.

Presentation of the main research material. Over the last decade, most European countries have shown a systematic increase in local budget expenditures relative to the volume of state budget expenditures. The reason for this were two main circumstances: the transfer of powers to local self-government bodies and the increase in the share of local self-government revenues. In Eastern Europe, the main changes are related to the completion of the reform of the administrative and territorial structure. Self-sufficiency of local self-governing authorities is characterized by taking into account such indicators-criteria:

1. The ratio of current expenditures and budget expenditures.

V. Martynenko

2. The ratio of cost of performance of its powers and expenditure for the execution of delegated central government authority.

3. The ratio of local government spending (local budgets) to public development spending (Denmark, Spain, Sweden – a state in which local spending as a percentage of public spending reach more than 50%).

4. The volume of local budget expenditures to GDP. Conventionally, the figure above 15% means a high level of decentralization. In Europe, among such States – Denmark, Sweden, Spain, Finland, Netherlands, Italy. Indicator 15-10% – average level of decentralization: Poland, Great Britain, Hungary, Czech Republic, France. A figure below 10% indicates a low level of decentralization: Slovakia, Lithuania, Estonia, Portugal, Greece and Cyprus

5. The share of own income in the structure of income of territorial communities (this indicator indicates the financial independence (financial autonomy) of the subject of local self-government. In foreign literature, these include income from a share in national taxes and fees [9, c. 27]. Among the countries in which the share of such income exceeds 50% – Sweden, Denmark, Finland, France, Luxembourg, Cyprus, Austria, Belgium, Ireland, Portugal, etc.). In Ukraine, own revenues are represented by local taxes and fees, the share of which does not exceed 3-4 % in the total structure of local budget revenues [10, p. 93–

94].

6. The volume of inter-budget transfers, in particular, subsidies equalization in the structure of local budget revenues.

The Western experts emphasize that the policy of financial decentralization can be effective if certain conditions are met, namely: the election of representatives of local authorities; the considerable tax powers of local bodies; the consolidation of local authorities' expenditure commitments; the independence of local authorities in determining the level of provision of public services; the ability of local authorities to carry out tax administration, etc. [11, p. 26].

The experience of unitary states shows the positive impact of financial decentralization on per capita economic growth. However, in developing countries it has a negative impact on economic growth. In conditions of corruption and unprofessionalism of local officials, lack of appropriate legal framework and effective coordination of actions between different levels of government, decentralization of public administration can pose certain threats, in particular, increased differentiation of income and living standards of the population, uneven access to resources, macroeconomic destabilization. Given this, the decentralization process should be based on several important principles, namely (Figure 1).

PRINCIPLES OF DECENTRALIZATION			
1) consistent and step-by-step transfer of functions from central to local authorities	2) interrelation of all stages of decentralization	3) the complexity of all activities at each stage of the reform package of measures related to a single goal and strategy	4) involvement of the general public and civil society in the decentralization process

Figure 1. Necessary and sufficient principles of decentralization

Source: formed according to the data given in [12, p. 57]

Subject to the necessary and sufficient principles outlined in figure 1, a country that has embarked on the path of decentralization of public administration can minimize risks and maximize the positive effects of this process [12, p. 57].

Thus, Ukraine declared the policy of

decentralization of the fiscal system, which is enshrined in the Constitution of Ukraine and ratified at the signing of the European Charter of local self-government. The basic principles of the organization of local self-government in accordance with the Charter are defined in this

way:

- “within the framework of national economic policy, local governments have the right to have sufficient financial resources of their own, which they can independently dispose of to perform their functions”. This principle states the provision that, on the one hand, local governments have the right to availability of financial resources, and on the other hand, it formulates the condition of sufficiency of financial resources;

- “the financial resources of local self-government bodies must comply with the powers defined by the Constitution and laws. Part of the financial resources should come from local taxes and fees, and rates on them have the right to establish local governments in accordance with legislative acts” [13, c. 25–29].

Significant in the theorization of fiscal decentralization are the principles formulated by Richard Musgrave:

1) the principle of conformity (the decision on the production of public goods should be taken by those citizens who live in the territory where the benefits and payments will be received, and taxes and fees to finance the public good administered);

2) the principle of centralized redistribution (changes in distribution should rely on the central government, which has the necessary leverage to implement the distribution policy);

3) the principle of financial equalization (in the absence of an adequate policy of individual distribution, the central government should ensure a certain degree of equalization between better and worse-off territories);

4) the principle of national desirable goods (central government can stimulate targeted transfers of local public goods, since their production is characterized by spatial externalities or they are particularly significant benefits from a national point of view) [14, c. 13].

We support the above principles of fiscal decentralization, but in order to pursue a policy of financial decentralization, it is very important for countries to distribute tasks between different levels of government. Therefore, first, you need to define clearly, what tasks it is advisable to assign to a particular level of power. Secondly, the allocation of these tasks should be maintained on an ongoing basis. Thirdly, with the division of tasks, the division of budget expenditures between levels of government is almost being addressed.

The theory of fiscal federalism or

decentralization is based on the so-called decentralization theorem formulated by the American economist Oates for local public goods, the consumption of which is carried out by a geographically localized subset of the entire population and for which the production costs of any level of output by the authorities of each administrative-territorial entity are the same and equal to the costs of the central government, it is always more efficient, or at least no less effective, to provide them at the local level. Subnational authorities, receiving more complete information about the needs of the population, have more opportunities to provide an optimal ratio of the tax burden and public goods. In other words, the level of power closest to the consumers of budgetary services is able to ensure the most efficient use of budgetary funds (cost-effectiveness) to meet local needs, which allows it to provide a range of budgetary services at a level at which it is possible to take full account of the specific needs of the local population and at which the benefits of these services pay off the cost that recipients are willing to pay. This achieves a Pareto-efficient level of production, which can not be provided by the central authorities, if the following conditions are met: 1) the costs of providing public services are the same for the central and subnational levels of government, i.e. there are no economies of scale; 2) produced in the territory of a particular jurisdiction, public goods are fully consumed by the population of this jurisdiction, i.e. there are no external effects; (3) the preferences of local communities vary widely (taking into account local needs can lead to a significant increase in the cost of centralized public services) [4].

Federalism, providing for the division of sovereignty between the centre and the regions, the participation of the latter in solving national problems and the central government in solving the problems of the regions, the distribution of power and responsibility between them has been a long time and now remains a utopia. In the late 30s, English political scientist H. Laski, studying the experience of the United States, Germany, Australia and Canada, concluded that the era of federalism is over, because the countries he studied no longer meet the economic and political needs of the future. However, after 70 years they are successfully functioning. This explains the fact that federalism in general, or at least the delegation of central government powers to local

governments, is becoming increasingly relevant in different parts of the world and has such advantages (Table 1).

Table 1. Advantages of fiscal federalism

Advantage formulation	Author, source
1. The decentralization process allows for the delegation of fiscal authority and responsibility for the provision of public goods to the local level. The effectiveness of the provision of public goods depends on not only the utility and price level of the public good, but also on the number of users.	J. Buchanan [3]
2. Local authorities have more information about local needs than the central government, so they make effective decisions.	F. Hayek [1]
3. Fiscal decentralization implies the emergence of competition between regions, which provokes the optimal allocation of resources.	C. Tiebout [2]
4. Fiscal federalism, subject to certain conditions, creates a situation in which the levels of state power mutually exclude interference in the functioning of the market economy. With an effective distribution of powers, none of the levels of power has a monopoly of economic regulation.	B. Weingast [15]

Source: systematized by the author.

W. Oates [4], R. Musgrave & P. Musgrave [14], M. Olson [16] and C. Tiebout [2] argue that neither large-scale centralization of government nor fully decentralized power consisting of a multitude of small and local jurisdictions is likely to be effective. The central government should focus on the provision of national public services, namely services whose benefits extend throughout the country and whose provision has significant economies of scale. Typical examples are defence, international relations, national infrastructure, monetary policy, macroeconomic stabilization and income redistribution and poverty alleviation policies.

The provision of public services at the local level should be in power of local government. By providing local public services at the local level, the regional government can adapt their quality and quantity to local conditions and circumstances and gain greater benefits. Providing the best quality services will allow local communities to attract business to their territory and, thereby, increase property prices. This, in turn, will contribute to the growth of taxes from production activities and real estate sales, which should be left at the local level [8].

According to I. O. Lunina, the powers of local authorities include such tasks, the solution of which has no influence beyond the relevant administrative-territorial unit. For various reasons, many types of taxes are not suitable as local taxes: taxes that are suitable for stabilization or

redistribution (e.g. income tax); tax bases that are distributed very unevenly across jurisdictions (e.g. natural resources taxes); taxes that can be easily exported by non-residents may weaken the link between tax payment and service provision [17]. Such taxes should be left at the level of the central government.

Taxes, which are quite easy to manage, can be left to local authorities. However, the larger the scale effect, the greater the argument to distribute such a tax at the national level. The basis for local taxes should not be very mobile and should not vary greatly between different regions (e.g. land and housing taxes), otherwise taxpayers will move from high-tax areas to low-tax areas.

If, for efficiency reasons, most large taxes are nationalized, local governments will not be able to collect enough revenue for local public needs, and transfers from the central government in this regard will become necessary. To better adapt to local preferences and circumstances, general central government transfers are more appropriate than targeted transfers. In the economic literature, there are mixed views on the role of decentralization. The World Bank declares that fiscal decentralization, in the case of adequate implementation, is able to increase political stability and general well-being of the population [18].

The OECD also supports the view that decentralization in general and fiscal decentralization in particular are positive [19].

However, there is no consensus among experts on the dependence of fiscal decentralization and economic growth. Fiscal decentralization shows better results in developed countries than in developing countries [7]. Many researchers note that the success of the decentralization process depends on not only the chosen decentralization model, but perhaps even more so on the existence of strong and effective institutions at all levels of government [2].

The OECD defines the principles of successful decentralization: clear allocation of financial functions; informed decision-making; compliance with local priorities; accountability. However, the application of these principles in practice has not been easy. The circumstances differ from country to country, so the political and institutional instruments that establish decentralization must be tailored to the specific circumstances of the individual countries.

In the absence of unambiguous empirical data, the researchers put forward the following three hypotheses concerning the relationship between decentralization and growth:

Hypothesis 1: Decentralization increases the economic efficiency of public spending.

Hypothesis 2: Decentralization can lead to macroeconomic instability, which in turn can inhibit growth.

Hypothesis 3: Developing countries have significantly different institutional and economic conditions from those of developed countries, so the results of decentralization in such countries will not be the same as in developed countries, and such countries will not receive positive or suffer negative consequences of decentralization accordingly.

According to the first, based on the famous decentralization theorem, decentralized provision of public goods can solve the problem of different preferences between the inhabitants of geographically and culturally diverse regions [2]. According to the second: according to the theory of public choice, the division of the state into several tiers and the existence of competing jurisdictions limits the ability of the state to collect tax revenues [20].

According to another view, the extent of decentralization may reduce the ability of governments to pursue policies of stabilization and redistribution of income, leading to a tendency of decentralized states to

macroeconomic instability and unsustainable debt levels [21]. Its author, T. Goodspeed, developed a model that covers two periods. In the first period, local governments provide a local public good by collecting taxes from citizens or by borrowing. The goal of the federal government is to maximize the likelihood of re-election. This probability is modeled as a function of net consumption levels in each jurisdiction (region). During the second period, net consumption in jurisdictions decreases due to the need to repay debts, because local governments have to repay the principal plus interest. The federal government can increase net consumption and therefore increase the likelihood of its re-election by providing appropriate grants, subsidies and the like. These federal government incentives are taken into account by subnational governments during the first period, resulting in high levels of borrowing by subnational governments.

In addition, if the federal government grants sub-national jurisdictions manually, there is an incentive for regional governments to create an image of the poor region of their jurisdiction, and then prove that the region does not receive sufficient funding. Since the marginal costs of federal funds are distributed across the federation, while the problems are concentrated in a separate jurisdiction, such behaviour is reasonable from the point of view of individual subnational governments [5].

Decentralization is also linked to the need to coordinate policies at different levels of government. If there are several independent governments that can determine tax revenues and expenditures at their discretion, it will not be possible to maintain fiscal policy coherence at the state level, which will manifest itself in a propensity to budget deficits at all levels of government [6].

At the same time, M. Freitag & A. Vatter [22] in their study, based on data from Switzerland proved that more decentralized cantons, as a rule, have a smaller deficit during the economic crisis. However, they did not distinguish significantly between centralized and decentralized cantons in the absence of crisis phenomena.

According to Russian and many Ukrainian scientists, the decentralization of public finances is a component of budget regulation, namely – the regulation of inter-budgetary relations, one of the parties of which is necessarily the state.

The analysis of the practice of budget regulation proves that its formation took place over a long time in an evolutionary way. As a rule, in unitary states there is a high level of centralization of budgetary resources, but in countries with a federal structure, budget regulation is based on the principles of fiscal federalism, which implies a balanced division of powers and responsibilities between the levels of the budget system, the relative independence of local budgets [23]. However, some federal countries are more centralized than some unitary ones.

For the effectiveness of fiscal decentralization, according to S. Larina, it is necessary to orient the central government of regional and local authorities in determining the objectives of budget policy, the development of models of social behaviour, taking into account the parameters that

either consolidate the positive effect of fiscal decentralization, or prevent the emergence of situations that contradict the established requirements (as an option – neutralize their consequences). The central government “forces” territorial structures to act accordingly, and here its position in implementation of strategy of fiscal decentralization and approaches to development of regulatory mechanisms is important [23]. Ideally, regulatory mechanisms should have a stimulating effect on the financial behaviour of sub-national authorities and promote quality and responsibility in the management of public finances. Thus, fiscal decentralization is aimed at creating a qualitatively new system of public finance management.

Typical models of power distribution between the centre and the regions are the following (Table 2).

Table 2. Typical models of distribution of powers between central and local authorities

Characteristic of model	Countries
1. Establishment of the list of the exclusive powers assigned to federation, all other powers go to regions, states, lands.	USA, France, Sweden, Australia, Mexico
2. Establishment of two exhaustive groups of powers – exclusively federal and sub-federal.	Ethiopia, Argentina
3. Application of three exhaustive lists of powers: federation, subjects of the federation and joint powers (for example, in India the federation is assigned 97 points, by states – 66, in joint management 47 points are provided).	India, Canada
4. Establishment of an exhaustive list of the powers of the federation and the joint powers of the federation and its subjects. Consolidation of own powers of subjects of the federation is based on the “residual principle”.	Russia, Germany, Austria, Switzerland, Brazil

Source: systematized by the author according to the data given in [24].

In view of the model of distribution of powers between the central and local public authorities, are shown in table. 2, it should be noted that an effective model of the organization of inter-budgetary relations should be based on a clear separation of expenditure and revenue powers, giving all levels of government sufficient sources of income or authority regarding their location (installation) for the implementation of their functions.

For example, in the USA, Australia, Canada, New Zealand, Switzerland, communities (voluntary associations of residents) not only make their decisions independently of the federal government and the state government, but also ensure their implementation at their own expense.

This forces citizens to make more informed decisions, because the increase in the volume of public goods requires high costs, hence – high taxes [17].

In foreign practice, depending on the criteria laid down in their basis, there are different forms of functioning of fiscal federalism. According to the classification of the International Monetary Fund, depending on the degree of financial interaction between different levels of government, they differentiate as follows: classical federalism (USA), cooperative (Germany), the Canadian, the British and the regime of administrative tutelage over the local authorities (France, Scandinavian countries) [25].

The instruments of budget regulation of local

budgets include:

- in the Russian Federation normative deductions from regulatory revenues; providing inter-budget transfers in the form of grants, subventions, subsidies, including subsidies allocated from the Fund for financial support of municipalities;

- in the US, through subsidies, subventions and grants, the government can actively influence the socio-economic development of municipalities. Inter-budget alignment in the US is represented by a complex system of budget grants allocated to budgets of different levels;

- in Germany the importance of intergovernmental transfers to districts in the form of subsidies, because a powerful system of alignment of budgetary security at the expense of “solidarity” taxes (where great importance is the system of redistribution of VAT) is mainly used for land. For local governments, revenue from taxes and other sources is not sufficient to implement fully a number of programmes. Therefore, they are dependent on subsidies provided by the land. Some subsidies (as in the US) are allocated for specific purposes, and some can be freely disposed of. Such a scheme of levelling fiscal resources at the local level aims to reduce the inequality of communities within each land, as some have large tax revenues, while others are insufficient to finance community spending commitments [26];

- in Canada, inter-budget transfers in the form of targeted and non-targeted transfers are provided below budgets to ensure minimum national standards. There are three main areas of vertical redistribution of budget funds: non-

targeted transfers to equalize budget revenues, transfers within the framework of financing approved programs and financial assistance under the financial support plan [27, p. 165];

- France is a unitary state with a high degree of centralization. In France, state subsidies and subsidies are used to equalize the revenues of local budgets [27, p. 165].

Conclusions from the conducted research.

Therefore, today in the world there is a strengthening of the process of decentralization of public administration and the establishment of an effective institution of local self-government, improvement of mechanisms of interaction of budgets within the unified budget system of the country, optimization of the budget process at all levels of public finance management. New countries have embarked on a process of fiscal decentralization – such as Estonia and Poland. Some countries, in particular Spain and Italy, have expanded the powers of sub-central governments to allocate their expenditures and tax policies. The key to the success of this process is a favourable economic and financial environment. In the event of an economic downturn or the need for financial consolidation, fiscal decentralization reform may face significant obstacles. After all, the reorganization of sources of financing of expenditures and public services requires changes in the structure of taxes, both at the state and regional levels, which leads to strict fiscal rules. Therefore, the central government should have free resources to support the initial stage of municipal reforms. This problem will be the subject of further research and studies of the author.

Bibliography:

1. Hayek F. A. The use of knowledge in society. *American Economic Review*. 1945. XXXV. No. 4. P. 519–530.
2. Tiebout C. M. A Pure theory of local government expenditures. *Journal of Political Economy*. 1956. Vol. 64(5). P. 416–424.
3. Buchanan J. M. An economic theory of clubs. *Economica. New Series*. 1965. Vol. 32. No 125. P. 1–14.
4. Oates W. E. Fiscal federalism. New York : Harcourt Brace Jovanovich, 1972.
5. Weingast B., Shepsle K., Johnsen C. The political economy of costs and benefits: a neoclassical approach to distributive politics. *Journal of Political Economy*. 1981. № 89(4). P. 642–664.
6. De Mello L. R. Intergovernmental scal relations: coordination failures and scal outcomes. *Public Budgeting & Finance*. 1999. № 19 (1). P. 3–25.
7. Dabla-Norris E. The challenge of fiscal decentralization in transition countries. *Comparative Economic Studies*. 2003. № 48. P. 100–131.
8. Bos F. Economic theory and four centuries of fiscal decentralisation in the Netherlands. *OECD Journal on budgeting*. 2012. Vol. 2012/2. 54 p.

9. Хлівний В., Гризоголазов Д. Фіскальна децентралізація на місцевому рівні. *Ринок цінних паперів України*. 2012. № 8. С. 25–28.
10. Тарасюк М. В., Руденко І. В. Місцеві податки і збори у контексті реформування оподаткування в Україні. *Вісник КНТЕУ*. 2012. № 6(86). С. 92–103.
11. Толуб'як В. Проблеми і перспективи фінансової децентралізації. *Економіка України*. 2004. № 2. С. 22–27.
12. Деркач М. І. Фіскальна децентралізація як фактор забезпечення сталого розвитку України. *Фінанси України*. 2011. № 2. С. 56–63.
13. Европейская хартия местного самоуправления : хартия Совета Европы от 15 окт. 1985 г. Дипломатический вестник. 1998. № 10. С. 25–29.
14. Масгрейв Р. А., Масгрейв П. Б. Государственные финансы: теория и практика / пер. с 5-го англ. изд. [1989]. М. : Бизнес Атлас, 2009. 716 с.
15. Weingast B. R. The economic role of political institutions: market-preserving federalism and economic development. *Journal of Law Economics and Organization*. 1995. No 11. P. 1–31.
16. Olson M. Strategic theory and its applications: the principle of fiscal equivalence: the division of responsibilities among different levels of government. *American Economic Review*. 1969. № 59(2). P. 479–487.
17. Луніна І. О. Державні фінанси та реформування міждержавних відносин. К. : Наукова думка, 2006. 432 с.
18. World development report 1999/2000. Entering the 21st century: The changing development landscape. New York : World Bank and Oxford University Press, 1999. URL : <https://openknowledge.worldbank.org/handle/10986/5982> (дата звернення : 30.10.2018).
19. Fiscal Federalism 2014. Paris: OECD, 2013. 136 p.
20. Brennan G., Buchanan J. M. The power to tax: analytical foundations of a fiscal constitution. New York: Cambridge University Press, 1980. URL : <https://www.econlib.org/library/Buchanan/buchCv9.html> (дата звернення : 30.10.2018).
21. Goodspeed T. J. Bailouts in a federation. *International Tax and Public Finance*. 2002. No. 9 (4). P. 409–421.
22. Freitag M., Vatter A. Decentralization and scale discipline in sub-national governments: evidence from the Swiss federal system. *The Journal of Federalism*. 2008. № 38 (2). P. 272–294.
23. Ларина С. Теория, методология и направления бюджетной децентрализации. *Финансовая экономика*. 2010. № 3. С. 22–45.
24. Ермасова И. Б. Государственные и муниципальные финансы: теория и практика в России и зарубежных странах. М. : Высшее образование, 2008. 516 с.
25. Bulletin for international fiscal documentation. Amsterdam, 1983. Vol. 37. № 6. P. 243–257.
26. Балтина А. М. Финансовые системы зарубежных стран. М. : Финансы и статистика, 2007. 300 с.
27. Морозова Е. А., Шахворостов И. С. Модели регулирования межбюджетных отношений в зарубежных странах и возможности их использования в Российской Федерации. *Вопросы экономики и права*. 2012. № 6. С. 162–166.

References:

1. Hayek, F. A. (1945). The Use of Knowledge in Society. *American Economic Review*, XXXV(4), 519–530.
2. Tiebout, C. M. (1956). A Pure theory of local government expenditures. *Journal of Political Economy*, 64(5), 416–424.
3. Buchanan, J. M. (1965). An economic theory of clubs. *Economica. New Series*, 32(125), 1–14.
4. Oates, W. E. (1972). *Fiscal federalism*. New York: Harcourt Brace Jovanovich.
5. Weingast, B., Shepsle, K. & Johnsen, C. (1981). The political economy of costs and benefits: a neoclassical approach to distributive politics. *Journal of Political Economy*, 89(4), 642–664.
6. De Mello, L. R. (1999). Intergovernmental scal relations: coordination failures and scal outcomes. *Public Budgeting & Finance*, 19(1), 3–25.
7. Dabla-Norris, E. (2003). The challenge of fiscal decentralization in transition countries. *Comparative Economic Studies*, 48, 100–131.
8. Bos, F. (2012). Economic theory and four centuries of fiscal decentralisation in the Netherlands. *OECD Journal on budgeting*, 2012/2, 54 p.
9. Khlivnyi, V. & Hryzhlozov, D. (2012). Fiskalna detsentralizatsiia na mistsevomu rivni [Fiscal decentralization at the local level], *Rynok tsinnykh paperiv Ukrainy – Securities Market*, 8, 25–28 [in Ukrainian].
10. Tarasiuk, M. V. & Rudenko, I. V. (2012). Mistsevi podatky i zbory u konteksti reformuvannia

opodatkovannia v Ukraini [Local taxes and fees in the context of tax reform in Ukraine]. *Visnyk KNTEU – HERALD of Kyiv National University of Trade and Economics*, 6(86), 92–103 [in Ukrainian].

11. Tolub'iak, V. (2004). Problemy i perspektyvy finansovoi detsentralizatsii [Problems and prospects of financial decentralization]. *Ekonomika Ukrainy – Economy of Ukraine*, 2, 22–27 [in Ukrainian].

12. Derkach, M. I. (2011). Fiskalna detsentralizatsiia yak faktor zabezpechennia staloho rozvytku Ukrainy [Fiscal decentralization as a factor for ensuring sustainable development of Ukraine]. *Finansy Ukrainy – Finance of Ukraine*, 2, 56–63 [in Ukrainian].

13. Evropejskaja hartija mestnogo samoupravlenija (1998). Hartija Soveta Evropy [Council of Europe Charter]. *Diplomaticeskij vestnik – Diplomatic Herald*, 10, 25–29 [in Russian].

14. Masgrejv, R. A. & Masgrejv, P. B. (2009). *Gosudarstvennye finansy: teoriya i praktika* [Public finance: theory and practice], Moccow: Biznes Atlas [in Russian].

15. Weingast, B. R. (1995). The economic role of political institutions: market-preserving federalism and economic development. *Journal of Law Economics and Organization*, 11, 1–31.

16. Olson, M. (1969). Strategic theory and its applications: the principle of fiscal equivalence: the division of responsibilities among different levels of government. *American Economic Review*, 59(2), 479–487.

17. Lunina, I. O. (2006). *Derzhavni finansy ta reformuvannia mizhderzhavnykh vidnosyn* [Public finances and reform of interstate relations], Kyiv: Naukova dumka [in Ukrainian].

18. World development report (1999/2000). *Entering the 21st century: The changing development landscape*, New York: World Bank and Oxford University Press. Retrieved from: <https://openknowledge.worldbank.org/handle/10986/5982>.

19. Fiscal Federalism (2014), Paris: OECD.

20. Brennan, G. & Buchanan, J. M. (1980). *The power to tax: analytical foundations of a fiscal constitution*, New York: Cambridge University Press. Retrieved from: <https://www.econlib.org/library/Buchanan/buchCv9.html>.

21. Goodspeed, T. J. (2002). Bailouts in a federation. *International Tax and Public Finance*, 9(4), 409–421.

22. Freitag, M. & Vatter, A. (2008). Decentralization and scale discipline in sub-national governments: evidence from the Swiss federal system. *The Journal of Federalism*, 38(2), 272–294.

23. Larina, S. (2010). Teorija, metodologija i napravlennja bjudzhetnoj decentralizacii [Theory, methodology and directions of budget decentralization]. *Finansovaja jekonomika – Financial Economics*, 3, 22–45 [in Russian].

24. Ermasova, I. B. (2008). *Gosudarstvennye i municipal'nye finansy: teoriya i praktika v Rossii i zarubezhnyh stranah* [State and municipal finance: theory and practice in Russia and foreign countries]. Moscow: Vysshee obrazovanie [in Russian].

25. Bulletin for international fiscal documentation (1983). *Amsterdam*, 37(6), 243–257.

26. Baltina, A. M. (2007). *Finansovyje sistemy zarubezhnyh stran* [Financial systems of foreign countries]. Moscow: Finansy i statistika [in Russian].

27. Morozova, E. A. & Shahvorostov, I. S. (2012). Modeli regulirovanija mezhbjudzhetnyh otnoshenij v zarubezhnyh stranah i vozmozhnosti ih ispol'zovaniya v Rossijskoj Federacii [Models of regulation of interbudget relations in foreign countries and the possibilities of their use in the Russian Federation], *Voprosy jekonomiki i prava – Questions of economics and law*, 6, 162–166 [in Russian].