IMPLEMENTATION OF THE PRINCIPLES OF FISCAL FEDERALISM UNDER CONDITIONS OF MILITARY RISKS AND THREATS

Krysovatyy Andriy
Doctor of Economic Sciences, Professor, Rector
West Ukrainian National University, Ternopil, Ukraine

Fedir Tkachyk
PhD in Economics, Associate Professor,
Department of Taxes and Fiscal Policy
West Ukrainian National University, Ternopil, Ukraine

The work focuses on the prospects of implementing the determinants of fiscal federalism into Ukrainian practice in terms of risks and threats to the national security. It is argued that an effective budget and tax policy based on the principles of fiscal federalism can strengthen the social and economic development of Ukraine and its territorial communities under conditions of the martial law and postwar state building.

One of the priority goals of the fiscal federalism functioning is the maximum provision of financial resources for social and economic development of territorial units. Such a narrative is especially relevant in terms of risks and threats to the national security. Since the declaration of the martial law in Ukraine due to the attack by the Russian Federation, Ukraine’s economy has found itself in the state of uncertainty. This situation is more acute in regions where active hostilities are taking place and is characterised by a moderate downward trend in remote territorial units, but the decline is not going to zero. The ability of territorial communities to function (survive) under conditions of martial law directly depends on the amount of the financial potential, which is formed by a variety of aspects. The financial capacity of the territories now depends on the degree of participation of funding sources. It is logical that direct public funding is embodied in the acute needs of society in a particular locality. Due to the violation of the normal conditions of business operation, the tax component of the revenue side of the State Budget of Ukraine is minimized. The low prospects for investment and enrichment of capital by business entities is a signal to public authorities and local governments that they need to have an adequate reserve financial fund. By adhering to the principles of fiscal federalism, the reserve financial fund becomes a realistic condition for the balanced functioning of territorial communities in future.

Given that in Ukrainian financial policy the determinants of fiscal federalism are transformed mainly in the mechanisms of decentralisation, it is advisable to
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To substantiate the principles of fiscal federalism in the unitary and federal states of the world. Agglomeration monitoring has identified the following principles of fiscal federalism, the relevance of which increases under conditions of military risks and threats:

1. The principle of autonomy, which is transformed through the algorithm of securing their own sources of income at each level of government with the ability to prioritize their use.

2. The principle of non-admission to the budgets of the highest level of additional revenues and unused or additional sources of income.

3. Reimbursement of expenses incurred as a result of decisions made by the authorities and top management [1].

4. Clear delineation of expenditure powers between the state and local authorities, their management and budgetary responsibility (including responsibility for financial support of tasks and functions with budget funds accumulated by the relevant budget).

5. Consensus between different levels of government and administration on budgetary and tax policy [2, p. 323].

6. The principle of financial sufficiency and reserve of municipal development, which provides for the design of the fiscal potential of the community, taking into account future financial risks to stabilize the acute effects of external shocks on social, economic and dimensional development.

7. Territorial approach of the state building, the principle and the main purpose of which is to balance the financial interests of administrative and territorial units with the approximation of the available resource base and the promotion of investment opportunities of the regions.

8. Symbiosis of financial support (rescue) of business by local governments and the state on the basis of joint decisions and programmes, including international support.

In our opinion, it is expedient to signal such principles of fiscal federalism as social and economic efficiency (efficiency of financial support of processes of public goods rendering and social standards ensuring), priority of financing defence and medical institutions, intensification of international volunteering and donations in terms of community funding (including on a voluntary basis), as well as the harmonization of the fiscal potential of the state, its subjects and local governments.

Monitoring of the basic principles of fiscal federalism showed that their implementation and observance is quite possible in Ukraine, as its goal is to provide citizens with public services at the lowest cost while respecting the principle of independence of each level of government in accomplishing budgetary and tax policies, achieving financial independence of central government and local authorities [3, p. 204].

In our opinion, the modern concept of fiscal federalism is to justify clear mechanisms for the distribution of financial powers between central and municipal authorities in the context of combined formation of budgetary resources and their effective redistribution to ensure social and economic development of the united territorial communities and strengthen their financial autonomy. The events that took place in Ukraine in February 2022 due to intensified hostilities and aggression...
by the Russian Federation showed that the availability of sufficient basic and reserve financial potential of the state and local governments can intensify funding of urgent needs of defence and defence (including evacuation) of population of Ukraine. Military and political risks and threats today should motivate adequate civilized states to increase the financial capabilities of the regions in order to strengthen their security and develop mechanisms for rapid response to possible manifestations of social and economic imbalances. Synergy in this perspective will be achieved faster on the basis of effective implementation of the principles of fiscal federalism, including into Ukrainian decentralization.

References: