PUBLIC FINANCES IN CONDITIONS OF CURRENT TransformATIONS

Abstract. Modern transformational changes occurring in the socio-economic life of countries are conditioned by the evolution of information and communication technologies, the deployment of globalization, decentralization, the strengthening of the openness policy and the increase of efficiency of use and hence the transition from a bureaucratic model of government to a consensus model, a built model. Implementation of entrepreneurial management mechanisms in providing social services to the population actualize the need for rethinking and justification the structure of public finance in the new environment. On the basis of systematic analysis, the theoretical aspects of «public finances» are revealed in the article, their structure is substantiated and the necessity of application in scientific circulation as an important dominant of civil society is proved. It is emphasized that the essential characteristics of this definition are revealed by the existence of financial and economic relations between the population, the state, other public institutions and economic entities regarding the formation, distribution, and use of public funds to meet the public needs of the population. It is shown that the structure of public finances is formed by state and local finances, finances of communal enterprises and state corporations, finances of enterprises and organizations of communal ownership, extrabudgetary trust funds and public funds. Among the dominant features of public finances in the context of modern transformations are transparency and imperative character. It has been argued that the vector of public finance reform must continue to be decentralization, which, in addition to the redistribution of resources and powers, should promote the extension of the financial powers of local governments, increase the transparency of both public and local finances, and raise public accountability. the public sector and improving the quality of life of the population.

Keywords: public finances, public finances, local finances, public goods, transparency.

JEL Classification H00, H40, H50.

Formulas: 0; fig.: 1; tabl.: 1; bibl.: 18.
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ПУБЛІЧНІ ФІНАНСИ В УМОВАХ СУЧАСНИХ ТРАНСФОРМАЦІЙ

Анотація. Сучасні трансформаційні зміни, які відбуваються в соціально-економічному житті країн, обумовлені еволюцією інформаційно-комунікаційних технологій, розгортанням процесів глобалізації, децентралізації, посиленням політики відкритості та підвищення ефективності використання, а відтак і переходом від бюрократичної моделі державного управління до консенсусної моделі, побудованої на ідеї втілення механізмів підприємницького менеджменту в наданні соціальних послуг населенню, актуалізують необхідність пересмислення та обґрунтування сутності та структури публічних фінансів у нових умовах. На основі системного аналізу розкрито теоретичні аспекти «публічних фінансів», обґрунтовано їхню структуру та доведено необхідність застосування в науковому обігу як важливої домінанти громадянського суспільства. Наголошено, що сутнісні характеристики цієї дефініції розкриваються існуванням фінансово-економічних відносин між населенням, державою, іншими публічними інститутами та суб’єктами господарювання з приводу формування, розподілу та використання публічних фондів коштів у цілях задоволення публічних потреб населення. Показано, що структуру публічних фінансів формують державні та місцеві фінанси, фінанси комунальних підприємств і державних корпорацій, фінанси підприємств та організацій комунальної форми власності, кошти позабюджетних фондів. Серед домінантних ознак публічних фінансів в умовах сучасних трансформацій визначено транспарентність та імперативний характер. Доведено, що вектором реформування публічних фінансів і надалі повинна бути децентралізація, яка посилана, окрім перерозподілу ресурсів і повноважень, сприяти розширенню фінансових повноважень органів місцевого самоврядування, підвищенню транспарентності як державних, так і місцевих фінансів, залученню громадськості до бюджетного процесу і підвищенню суспільної ефективності функціонування публічного сектору та поліпшення якості життя населення.

Ключові слова: публічні фінанси, державні фінанси, місцеві фінанси, суспільні блага, транспарентність.

Формул: 0; рис.: 1; табл.: 1; бібл.: 18.

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425
Аннотация. Современные трансформационные изменения, которые происходят в социально-экономической жизни стран, обусловленные развертыванием процессов глобализации, децентрализации, усилением политики открытости, а затем и переходом от бюрократической модели государственного управления к консенсусной, актуализируют необходимость переосмысления и обоснование сути и структуры публичных финансов в новых условиях. Раскрыты теоретические аспекты «публичных финансов», обосновано их структуру и доказана необходимость применения в научном обороте как важной доминанты гражданского общества. Показано, что структуру публичных финансов формируют государственные и местные финансы, финансы коммунальных предприятий и государственных корпораций, финансы предприятий и организаций коммунальной формы собственности, средства внебюджетных целевых и общественных фондов. Доказано, что вектором реформирования публичных финансов должна быть децентрализация, которая призвана, кроме перераспределения ресурсов и полномочий, способствовать расширению финансовых возможностей органов местного самоуправления, повышению транспарентности как государственных, так и местных финансов, привлечению общественности к бюджетному процессу.

Ключевые слова: публичные финансы, государственные финансы, местные финансы, общественные блага, транспарентность.

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Introduction. Research of the nature and functioning efficiency of public finances is a relevant direction of financial science from the viewpoint of changes occurring in socio-economic life of countries stipulated by evolution of information and communication technologies, expansion of globalization processes, emergence of the so-called «network economy» based on democracy, flexible structuring and horizontal interaction, development of economy of reciprocal accountability, and no less important — transition from traditional bureaucratic model of public governance formed on the grounds of recognizing a country as a monopolist in granting social services to consensual managing model developed on an idea of realizing the entrepreneurial management mechanisms in social domain, in particular in providing social services to population. Growing policy of transparency and openness of government regarding the efficient use of public finances is another side of the problem.

Analysis of research and statement of problem. Classical public finance theory represented by Buchanan J., Musgrave R. [1] shifts the focus towards forming of revenue and expenditure sides of central and local budgets, while interaction between public and local finances is considered from the viewpoint of financing of social benefits. They deemed public finances as
material basis for functioning of social sector, therefore, it is no wonder that they paid special attention to procedures of social choice and their impact on the volumes and structure of government budget.

Meanwhile, the representatives [2] of «new» Western public finance theory that has been actively developing in the last twenty years emphasize the need to take into account the interaction between markets and states and cooperation between public and private stakeholders. It is believed that in order to solve socio-economic problems of the countries, the governments should mobilize both public and private funds. Taking into account the growing role of international financial entities, it is reasonable to include international finances in the structure of public ones. The «new» vision of public finances is related to erasing of borders between the national economy and external environment that leads, on one hand, to deepening cooperation of private business and public sector of a country, while on the other hand — to growing competition between them that overcomes the boundaries of national borders in correspondence with global challenges of modern times [3].

The views over the nature, structure and role of public finances are somewhat different in domestic financial science. Thus, some researchers argue that public finances cover the revenues and expenditures of central and local governments as well as mandatory social insurance funds and structural relations between them, which are defined in the framework of representative power [4]. Others insist on including of communal ownership entities’ finances in the structure of public ones. Moreover, they consider public and social finances to be synonymous, deeming them to be economic relations related to distribution and redistribution of the share of the value of created Gross Domestic Product through the use of centralized funds of money resources of public authorities and local governments with the view to provide social benefits to population [5]. The authors that allocate state finances, local finances, public corporations’ finances and social insurance funds in the structure of public finances have gone somewhat further in their research [6].

The paper aims to conduct systemic research and substantiate the nature of public finances in conditions of current transformations.

Research results. The conducted analysis provides ground to claim that both theory and practice of financial science have increasingly been using the «public finances», shifting «state finances» or «social finances» to the second place (although these concepts are sometimes simply substituted or used as synonyms, which is not completely justifiable, in our point of view, because they have different substantive contents). And it is for a good reason, as far as the concept has entered domestic financial science relatively recently and it is associated with the birth of democratic/public society, market economy and forming of institutional environment, where a country uses various public procedures to perform its functions (open auction, financial operations on the securities market, etc.). Meanwhile, «state finances» concept had been established in finance theory for a long period in the soviet times, showing the role of finances in the development of the whole economic system and emphasizing the public ownership of these resources and rights to use them. In other words, functions of finances were directed at meeting the needs of the state. Moreover, state «care» was essential in everything: in financing of social domain, in regulation of wages, in control of banking system, etc. There wasn’t any alternative to banking system or state system of social security, same as there wasn’t any transparency about state finance.

Ukraine’s integration into global financial and economic space, growing need for cooperation and collective actions, and therefore — growing understanding of the role and functions of finance and its belonging to society in general or a certain community rather than to the state as social institute substantially change the traditional understanding of «state finances» and stipulate the need to use the generally excepted terminology in the world, which suggests the concept of «public finances». It is on one hand. On the other hand, the deepening decentralization processes and transfer of financial resources and rights to own and manage them to the local level as well as essential expansion of financial liabilities of local governments modify the system of «local finances». Under such conditions both state and local finances are the independent components of public finances, although they are interrelated. The system of public administration is gradually substituted by the system of public governance based on decentralization, delegation of
authorities and responsibilities to the local level and allocation of public finances as a component of public governance and a tool to meet social needs of population.

The trends of modern economy development on the grounds of «technology diffusion» that boost the forming of a single financial and information space, Internet revolution that has become the basis for the development of modern network economy (with the following advantages: emergence of general partnership without an appeal to the state; emergence of social networks and guaranteeing of equal and unobtrusive cooperation for participants; erasing of any borders and expansion of experience through access to information), globalization, etc. change the nature of demand of population for social benefits. Self-organization of communities capable to solve socio-economic problems independently is growing in scale. In other words, the new forms of social connections emerge, which secure the equal cooperation. Under such conditions, a state gradually loses the monopoly over control and an asymmetry of information distribution between the authorities and community, which has been cementing the centralized governance system for a long time, disappears. The approaches to providing public services to population are gradually changing from the centralized to decentralized ones. An idea of «a citizen for a state and the state for performing its functions» is altered by an idea of «a state for the citizens».

Establishment of such values is promoted by decentralization reforms, reforms of local governance and authorities’ territorial organization, which have become increasingly popular both in developing countries and countries with developed economy and have boosted an idea of entrepreneurial governance in social domain and funding of certain social benefits. Global practice shows that successful reforms of decentralization and authorities’ territorial organization have become the key to changing of bureaucratic paradigm of public governance conveying an idea that social benefits and social services should be guaranteed by a state.

In this regard, such transformations modify the traditional understanding of «public finances» and make us consider them from a different angle. Therefore, if to take into account that public finances are the instrument to meet social needs of population, it is necessary to clearly understand that they all (services) are provided by public sector of economic system of a country. Foreign literature provides that the sector (public sector) is formed by [7—9]: public governance sector (central, regional, local authorities and social security funds) and public corporations sector (financial/ non-financial). They are directed at achieving of social, cultural, ecological, political and other community goals. The need to consolidate public authorities, local governments and a range of non-governmental organizations into the public sector is substantiated by the Western researchers by the specifics of their functioning.

In domestic financial literature the «public sector» concept is often substituted with «social» or «state» sector, which are not synonyms in our point of view, because they reflect its content and structure not quite correctly. In all fairness, it is worth admitting that there aren’t established approaches to understanding of the nature of these concepts. Indeed, some scientists consider public and municipal sector as an element of a social one [10], the others emphasize the reasonability of inclusion (in addition to public and municipal) of public entities and organizations, because they understand the designation of social finances as meeting of not only social but also individual interests [11]. Variety of approaches and features of social sector is stipulated, as we see it, by the lack of distinct boundaries of social responsibility and of the defined institutes for the provided social services.

In our point of view, the major goal of functioning of social sector is to implement the policy of social welfare. Both public governance authorities (state/local) and educational, healthcare, social and cultural facilities that can provide similar social services only lesser in scale can be the entities of such policy (we are talking about the orientation at achievement of social, cultural, ecological and political goals of a country’s development). In this regard, it is worth accepting the view of the researcher that it isn’t entirely correct to equate social and public sectors, because, for instance, municipal enterprises and social organizations aren’t the public property, so they cannot be included in public sector, yet they belong to society and therefore — to social economy sector [12]. Following this logic, we should recognize that social sector is much wider
than the public one, because its structure is formed by institutions of both public and municipal sectors as well as a range of non-profit self-governing organizations and agencies of extrabudgetary target funds.

Based on such contemplations and taking into account the range of factors of both global and local nature, there is a need for reviewing the approaches to understanding of the nature of many basic categories and concepts of financial science. Among them, our attention is focused on «public finances». Traditional public finance theory allocates only state and local finances in the structure of public finances, examining its interaction in securing the funding of social services. Development of economy and public society changes social relations, which in its turn boosts the forming of respective public finances. Nitti F. [13] explains the strengthening of public component in a state’s activity in 19 century by «increasing participation of masses in social life, due to which a government and local agencies had to take on providing of many services that hadn’t been considered as valuable to community before or that had been simply neglected».

The new public finance theory became popular in the 1990s in the works of M. Stern, R. Mendoza, I. Grunberg and I. Kaul [14] and is still relevant nowadays. It was formed based on interaction and competition of public and private economy sectors, which is defined as public-private partnership in scientific circles. Development of the «third economy sector» that provides social goods, works and services and implements projects for the good of the whole society (social, ecological, humanitarian, etc.) [15] has made the role of public finances increasingly relevant nowadays.

Taking into account the current realities of development of global economy and financial relations, there are opinions that it is reasonable to include international finances in the structure of public finances, which is explained by «erasing of borders» between financial systems of the countries in the world, increasing weight and role of international financial structures on global markets, forming of supranational budget systems and almost complete absence of closed national financial systems. Impact of economic phenomena on the features of development of national financial systems in other countries is another evidence of including international finances in the structure of public ones. In particular, it is worth mentioning the recurrent financial crises that substantially reduce the allocation opportunities of governments to solve socio-economic problems at national level and stipulate the need to form international funds of financial resources.

Transparency and imperative nature are another contemporary features peculiar to public finances in current realities that require its reforming and development in conditions of developed social sector and control of society over economic relations of such nature as well as relative depersonification of providing of social services, because the residents do not receive services personally but rather as the members of public union.

Taking into account the modern realities of financial-economic system development and resting upon the conducted analysis, further we will insist that public finances are formed (Fig.) by: state and local finances, finances of utility enterprises and public corporations, finances of enterprises and communal ownership organizations, money of extrabudgetary target and social funds. Therefore, public finances are the result of transformation processes (taking place under the impact of internal and external factors) in financial activity of authorities of various levels, local governments, various public institutes and in development of social sector, which aims to secure qualitative public services. In this regard, public finances constitute a much wider concept than the state ones, because nowadays the population’s public needs are met not only due to state/local funds but also other funds of public institutes. Summing up the research in this part we should mention that the nature of public finances is disclosed through existence of financial-economic relations between population, state, other public institutes and economic entities in terms of forming, distribution and use of public funds in order to meet public needs of population. Subordination to public interests is the dominating feature of the category.
Fig. Public finances and their structure in conditions of modern transformations

### Objects
- **State finances**
- **Local finances**

### Institutes
- **Executive authorities** (at various levels), public governing bodies, budget institutions
- **Local governments**

### Social benefits
- **Global** (viral disease control; maternal mortality control; addressing the financial and economic crises);
- **National** (national security and defense; public order; quarantine supervision; environmental protection; sanitary and epidemiological measures);
- **Local** (educational, medical, social, public services and amenities, municipal, domestic, cultural)

### Impact factors
- Globalization; financial crises; competition for resources; administrative-territorial structure reforms; Decentralization, sectoral

### Changes in functioning of public finances stipulated by decentralization:
- Transfer of functions and financial resources to lower governance levels;
- Bringing services closer to consumers;
- Increasing transparency of public finance;
- Determining of services’ cost;
- Selection of services providers;
- Involvement of community in public

**Note.** Developed by authors.
Taking into account the absence of clear list of population’s needs for social security in Ukraine, currently it is hard to talk unambiguously about the adjusted structure of public finances, their volumes and responsibility boundaries of authorities (at various levels), economic entities and population. According to Ukraine’s statistical classifier [16], public finances are formed by general public governance sector, which includes: sector of public governing authorities (central authorities, local authorities and social insurance funds); public non-financial corporations (economic entities, where the state is an owner or a co-owner) and public financial corporations (National Bank of Ukraine, public financial corporations — banks, which are controlled by the state and are the largest by the volumes of assets in banking system, public funds of monetary assets and public pension fund are the most powerful of them). Law of Ukraine [17] «On Transparency of the Use of Public Funds» defines public funds as «the funds of government budget, budget of Autonomous Republic of Crimea and local budgets, credit resources provided under state and local guarantees, funds of the National Bank of Ukraine, public banks, public target funds, Pension Fund of Ukraine, funds of mandatory public social insurance and funds of economic entities of public and communal ownership received from conducted economic activity».

In our research we argue that public finances are the instrument to finance public services. Taking into account the worldwide trends of forming of democratic society (in this regard, Ukraine is not an exception) and popularization of «a state as a provider of qualitative services» as opposed to «a strong state», the level of awareness of such services consumers rises, on one hand, while on the other hand — the requirements to institutes that provide services increase as well. Therefore, there is a need to improve the transparency of public finances. Under such conditions, the concept of public governance changes: a society delegates competences in terms of funding of public services to certain institutes (government, local governments, public corporations). Forming of public finances funds (same as their use) should take place based on transparency. Moreover, the higher is the level of transparency, the higher is the public trust.

The public finances of EU countries have been facing substantial changes both in expenditure and revenue sides of the budget in the recent decade. Moreover, almost each country increases the government debts (especially in the euro zone) (Tabl.). In this regard, Ukraine does not differ from European tendencies. Although, while high level of revenues is secured by social contributions (Germany, France, Italy — from 30 to 40 % of total revenues) and property taxes (Great Britain, Italy, Norway — from 18 to 45 % of total revenues) for the budgets of the euro zone countries [18], the countries with low income level (where Ukraine belongs) shift the accents towards the indirect taxes (from 35 to 47 % of consolidated budget’s revenues).

### Table

**State of public finances: European countries and Ukraine, 2010—2018**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>EU countries (28)</th>
<th>Euro zone countries (19)</th>
<th>Ukraine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public revenues, % of GDP</td>
<td>43.6</td>
<td>45.1</td>
<td>44.7</td>
</tr>
<tr>
<td>Public expenditures, % of GDP</td>
<td>50.1</td>
<td>48.0</td>
<td>46.4</td>
</tr>
<tr>
<td>Government budget balance, % of GDP</td>
<td>-6.4</td>
<td>-2.9</td>
<td>-1.7</td>
</tr>
<tr>
<td>Government debt, % of GDP</td>
<td>79.6</td>
<td>87.0</td>
<td>83.8</td>
</tr>
</tbody>
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Decentralization (for instance, the financial one) is an additional factor of transformation of classical understanding of public finances, which by its ideology is designated to promote the clear forming of standards of public services provision, their cost, boundaries of officials’ responsibilities and guaranteeing of an opportunity to select the provider of services (where it is possible), etc., in addition to transfer of resources and competences from the central to the local level. The ultimate objective of public finances decentralization in Ukraine is to expand financial competences of local governments (forming of comprehensive system of local finances), to improve transparency of both state and local finances, to involve society in the budgetary process, and the most important — to improve social efficiency of functioning of public sector and to improve the quality of life.

**Conclusions.** Therefore, the conducted research provides the ground to argue that in conditions of current transformations the public finances gain a new conceptual meaning and constitute a much wider concept than state finances. Forming of modern public finances is accompanied by modernization of social sector and change of residents’ understanding of the state governance at both national and local levels. The abovementioned contributes to increasing transparency and controllability of public finances by society, which in its turn is a clear evidence of financial transformation of authorities and local governments that promote the improvement of the quality of social services.

**Literatura**


**References**


The article is recommended for printing 12.05.2020 © Voznyak H., Savchuk N., Zherebylo I., Skasko O. I.