

## **BUDGET DECENTRALIZATION: THEORETICAL APPROACHES TO RESEARCH**

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The article studies the problem of centralization and decentralization of the budget. An attempt was made to cover all arguments for and against decentralization. A comparative analysis of the benefits of fiscal centralization and decentralization.

The increased attention to the problem of “centralization – decentralization” in the last decade has been caused by a serious practical interest, which is connected with the transition from unitary to federal government, and the vigorous development of relations of fiscal federalism.

Scientists involved in this problem express the opinion that “... always a politically tinged problems become finding a balance of benefits and disadvantages of centralization and decentralization. It does not require evidence of the serious consequences of a bias in one direction or the other. If “everything” is decentralized (in fact, the “center” disappears or becomes nominal), then the former system is completely deformed: instead of the former “center”, several new ones appear. According to this scheme, for example, the disintegration of complex states takes place: the unitary - federal - confederation - several new ones. In any integral system, decentralization is appropriate only for as long as there is a “center”. If “everything” is centralized (disappear or put nominal “subjects of decentralization”), then a unitary, totalitarian organization of management (ultimately - in spirit) of the state arises”.

At the same time, different countries with a federal structure (USA, Canada, Germany, etc.) are getting closer to the optimal level of balance between centralization and decentralization, and this happens not only because of their financial and budgetary well-being, but also due to using politically correct, socially and economically justified rules, and mechanisms for coordinated distribution of powers and resources across different levels of the state-territorial structure. This indicates that in these countries they have learned to use the advantages of fiscal decentralization in public finances, leveling its shortcomings with the help of these instruments.

The optimum criterion at each time point is the presence (or absence) of sustainable territorial socio-economic development, the minimization of subsidized and depressed territories, and the growth of citizens' well-being. This optimum is dynamic, its mobility, monitored in the monitoring mode using a set of socio-economic indicators, can be the basis for realistic assessments of the effectiveness of the degree of decentralization.

The term "decentralization" is used quite widely, but its meaning is not always understood in the same way. Fiscal decentralization is interconnected with the processes of geographical decentralization and decentralization of the system of administrative decision-making, however, it has a number of differences.

Geographic decentralization is used in many countries to boost economic development mainly in rural areas, with the help of subsidies and tax breaks to achieve a reduction in relative costs for business development and thus make these territories more attractive. This kind of decentralization does not necessarily imply strengthening the financial base of local governments. Decentralization of the system of making and implementing administrative decisions implies a wider delegation of authority to local units of the central executive power. This strategy is designed to provide technically more efficient management by reducing the multistep process of executing decisions and increasing, thereby, the efficiency of the work of government bodies. To achieve these goals, it is also not necessary to strengthen the financial system of local governments.

As you know, decentralized management, even in its most rational form, is an order of magnitude more complicated than a centralized one, and decentralized organization of a complex system (for example, the federal structure of the state) requires efforts to maintain its integrity and sustainable development immeasurably larger than in the version of a unitary organization. At the same time, it is the federal structure that is often the only way to preserve the integrity of a country, since territorial decentralization in the form of a federation remains the most significant alternative to disintegration and political disintegration of the country. Therefore, the federation, being the newest evolutionary peak in the development of the state; most appeared only in the twentieth century

In the field of public finance, fiscal (or fiscal) decentralization has fundamental differences from other forms and methods of delimiting competencies, powers, and resources due to the fact that its subject throughout the world are: a single system of public finances and uniform rules of taxation, development and budget execution. In addition, in each state, the unity of the monetary system and external borrowing is obligatory. At the same time, the main goal of decentralization is to create a closer relationship between the control system and the population, and

this requires strengthening the financial system of local governments. The task is to provide the regions and local governments with certain powers in the field of taxation and expenditure of funds, as well as the ability to independently determine the parameters and structure of the budget expenditure. Thus, the population will be able to independently determine the composition of local authorities (through elections) and actively participate in the management process.

The end result should be an increase in the quality of public services provided by local governments, and greater voter satisfaction. Fiscal decentralization implies a certain degree of autonomy for local governments, allowing them to make independent decisions in the fiscal sphere.

In order to reveal the economic content of decentralization as the reverse side of centralization, it is necessary, probably, to weigh their advantages and disadvantages.

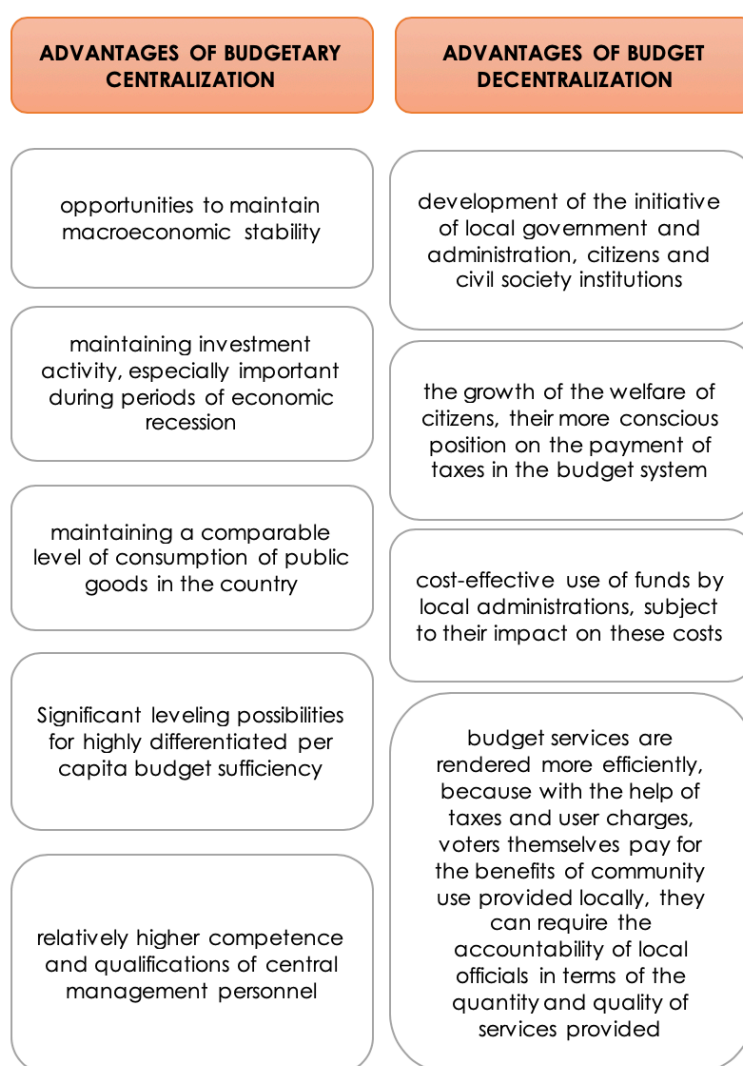


Figure 1. Benefits of fiscal centralization and decentralization

For evidence of the generalizations put forward, we present some analytical and statistical data.

In terms of opportunities for macroeconomic stability, centralization is preferred at the transitional stage. Scientists note that states with developing and transitional economies are unstable in their nature, which is explained by a number of reasons, for example, a significant dependence on a limited number of major export items (agricultural or mineral) [3]. Changes in prices on the world market can have a very negative impact on the economy of such a country. Changes in global economic conditions may also slow the pace of economic growth in such countries. For example, an economic downturn in the global economy could lead to a reduction in the inflow of foreign investment, a drop in export demand, a significant reduction in tourism activities, etc. Thus, even in the most economically developed countries of Latin America, real GDP is 1.5 times more volatile than in industrialized countries, and real exchange rates of national currencies are 3 times more volatile.

The threat of instability forces the central authorities to monitor the activities in the fiscal sphere (by reducing government spending, or by increasing taxes) in order to pursue a stabilization policy. Indeed, how can a program to regulate inflation and the budget deficit be implemented, provided that a significant proportion of government spending and taxes are managed by local governments that have no direct interest in the implementation of stabilization policies?

Control over revenues, expenditures and borrowings of territorial authorities is a prerequisite for achieving macroeconomic stability, and they are much easier to implement in conditions of fiscal centralization.

In assessing the advantages and disadvantages of both centralization and decentralization, the most difficult thing is finding a balance between these two competing approaches. The key fact, if it is necessary to systematically evaluate the set of parameters, is probably the fact of the indissolubility of their existence in the conditions of progressive development of federative relations as a whole, obliging to search and find the optimal combination for each specific moment of development.

**Keywords:** decentralization, fiscal decentralization, macroeconomic stability, investment activity, region, income, expenses