BUDGET SYSTEM REFORMING AS THE PRIORITY DIRECTION OF THE ECONOMIC GROWTH OF CIVIL SOCIETY

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Abstract. *Budget system as a component of the financial system must perform the functions assigned to it and facilitate the increase of efficiency of both budget policy and economic policy of the state on the whole. The increase of efficiency of the latter should presently be linked to system regulation, modern innovative technologies and institutional budget architectonics, which jointly must lead to economic growth in the state.*

Key words: *budget, budget system, budget policy, budget order, budget architectonics.*

Presentation of Main Material. A budget system as an interdependent unity of budget order, budget policy, budget law, budget institutions, the interaction of which determines the formation, mobilization and use of budget funds in conformity with societal relations established by uniform principles and norms of law, with the aim of resolving the state's socioeconomic tasks, calls for reform today [1, p.113]. The institutional architectonics of the budget system is connected with all institutions of civil society. According to different types of classifications (financial basis, sociopolitical structure, spiritual sphere foundation etc.) [2], to the elements of such societal institutional structures belong households, enterprises and organizations of different patterns of ownership and public institutions ("the third sector").

The direct initiators of the establishment of "third sector" institutions are economic individuals, the motivation of their activities differs essentially from the development targets of business units. For the purposes of a simplified description of the interaction model of institutional structures of the budget system with civil society subjects, let us assume that both associations of individuals and individuals per se will be designated within the model as "public institutions", and companies, as "business institutions".

In the proposed model (Fig. 1), budget system architectonics (arrows 1, 7) secures model integrity and stability, as well as embodies technological and institutional innovations of model development (arrows 3, 5) with respect to civil society subjects and institutions. In their turn, both public and business institutions must adapt ("institutional adaptation") to internal and external externalities (arrows 4, 6). Public and business institutions interact as sellers and buyers of production factors, at the same time performing certain obligations in respect of each other — arrows 9, 10 (for instance, social liability of business institutions).

The incomplete institutional order in Ukraine emerged in the process of implementing a gradual strategy of economic and legal reforms which presupposed that necessary institutions will be established within a set one-by-one sequence, and this process took a lengthy period of time. Ukraine failed to capitalize on the alternative to the "gradualist" approach that presupposes a radical reform strategy under which necessary institutions are established quickly and virtually simultaneously. The incompleteness of reforms, which is characteristic of the gradual approach, created vast opportunities for the useful operation of the incomplete institutional order, including within the institutional architectonics of the budget system. The extraction of benefits from halved reforms became the privilege of political and business elites, who, accordingly, do not desire to complete these reforms. [4, p. 212], [5, p. 23–27].

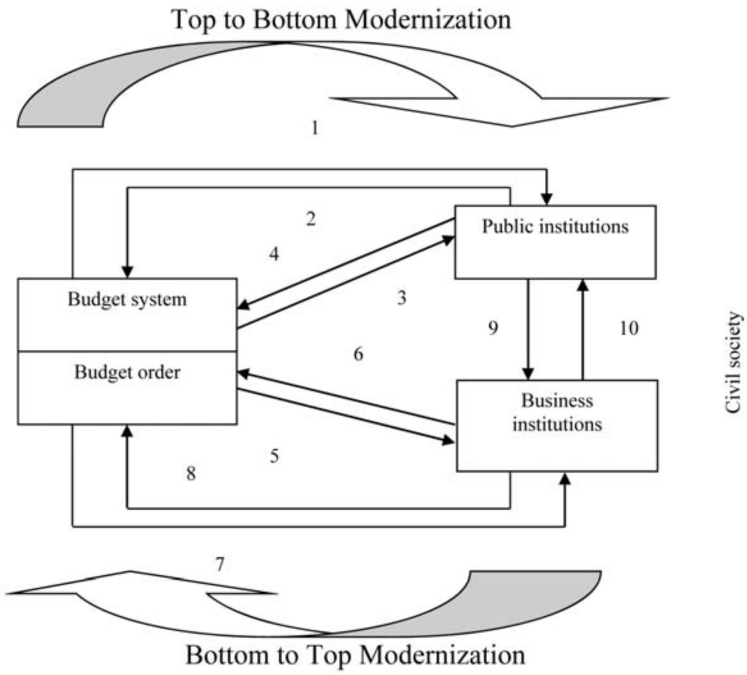

Figure. 1. The model of interaction between civil society and the key principles of budget order

Source: proposed by the author

Such state of things in the budget system leads to a lack of interest in the use of sufficient budgetary resources for the stimulation of scientific and technological advance, the broadening of production scale aimed at catering to human needs, the improvement of medical and educational service provision mechanisms, and control over the natural environment. The impact of the age of "high modernism" upon the human being, along with a number of negative socioeconomic challenges that have become especially acute in the 21^{st} century, facilitated the formation of a totally new idea of human welfare. Therefore, in the overall concept of the development of an independent state in the 21^{st} century, budget socialization has come to be perceived not as an element of economic growth (through the increase of a tax basis, improvement of defense capacity), but as an independent goal of the national economy budget system functioning. The determinant prerequisite of such transformation has become manifested in the research of qualitative indicators of population security — material status, level of literacy, degree of adherence to laws etc. The social order existing in the country that was perceived as a given and something that remains unchanged, has for the first time become the subject of active management under the state supervision. Developed countries began to actively allocate budget funds to support the implementation of the program of nutrition hygiene improvement, child education, leisure etc. Environmental issues that influence a nation's genetic fund received special attention (e. g., the USA set the goal of reaching the 80% share of "clean" energy in the country's total energy consumption level by 2035) [6].

As research undertaken by R. Arjona, M. Ladaique, and M. Pearson demonstrates, the following regularity can be traced: the dynamics of social expenses correlates positively with the dynamics of economic growth [7, p. 18]. Later research has proven that "at the macroeconomic level, there exists no clear evidence that an increase of state welfare influences economic developed negatively". State welfare systems, for instance those of the USA, Japan, and a number of European countries, consumed the same share of budget resources, but brought about different outcomes in the sphere of economic growth and had different norms of capital accumulation. Yet, in some periods there existed a negative balance between the said indicators [8]. However, the authors stated that there existed no temperate negative correlation between the degree of state welfare development and economy competitiveness.

Not a single country that experiences rather low economic growth rates or where such growth is totally absent does not own a developed welfare system. The large size of a state (that is, primarily, its budget expenditures on social needs — author) is in itself not a reason for low economic growth or stagnation.

Indeed, if one analyzes the lines drawn by many researches between economic growth rate and the level of expenditure of budget funds on social needs, one finds them to differ considerably by country, due to which one cannot arrive at an unambiguous decision. In our opinion, this matter has been presented in the most concise manner by J. Temple: "In debates, statements are often pronounced that a level of social security payments being high in relation to GDP and state consumption poses a threat to the prospects of economic growth. In reality, the correlation between the said indicators is not strong." [9, p.145]. Even if it does exist, as a rule, it is positive. And the presence of a fully-fledged "social security network" is the main sign of a functioning "social state" [10].

The redistributive function of budget system refers to another issue of the social security of population. The above noted research failed to discover any evidence in favor of the fact that the increase of inequality in budget distribution performs a negative impact on economic growth [7, p.12]. This was the viewpoint espoused by the IMF expert group. "Most scholars, they noted in 2001, failed to find systemic global interdependence between the growth (economic) and disproportion (of incomes)" [11].

Among those who insist upon the existing correlation between the manner of distribution and economic development, in whose opinion state redistribution of income through the budget system serves as one of the factors of economic growth, there are distinguished two different standpoints. One of them is expressed by the negative evaluation of the economic consequences of the increase of inequality (and, respectively, positive evaluation of the decrease of inequality). This, in particular, is a study of 46 countries within the period from 1960 till 1985 by A. Alesina and D. Rodrik, *Distributive Politics And Economic Growth* (1994), on the basis of which authors arrive at the conclusion that "inequality of incomes has negative correlation with (next) economic growth" [12, p. 478,481,485]. Such correlation was especially strong within the last 15 years of the study, which, in the scholars' opinion, was the main reason for the dropping of economic growth rate. F. Loran and R. Vergar developed a coefficient of this correlation based on the study of 45 countries conducted within the period from 1965 till 1985. According to the authors' calculations, every 10% increase of income distribution inequality (higher quintile income in respect of lower quintile income) corresponds to 0.9% of production volume decrease per capita; that is, the researchers have proven that "negative correlation exists between inequality and economic growth" [13, p.21]. This view was espoused by a number of other researchers, among which is P. Perotti [14, p. 149–187]. A number of researchers find a rather weak proof of such interdependence of influence in statistical comparisons [15, p. 35–52], [16, p. 297–321]. etc. And a different viewpoint clearly emerges — positive evaluation of the increase of inequality (and, respectively, negative evaluation of inequality decrease). This standpoint is presented in works by D. De la Groix and M. Doerke [17], as well as K. J. Forbes [18].

Thus, in K. Forbes' research, economic growth is viewed in the first place as a function of primary inequality of market incomes. Based on data collected within 1960–1980's, the author compares the degree of income distribution inequality and economic growth rate in 45 countries, including 16 "developed" ones, and arrives at the conclusion that the "increase of income inequality of a certain country has a strongly positive correlation with economic growth" [19, c 878]. The author emphasized that this is not a challenge to previous views, but an "addition" to inferences drawn earlier. However, if one compares and analyzes the views regarding income distribution and economic development, one can say that the increase of equality in distribution, as a rule, creates more favorable conditions for development, than the increase of inequality does. At the same time, one can hardly object to the fact that the increase of inequality is one of the multiple factors of the modern global economic crisis. The social activities of a state are indeed connected to large budget allocations and the budgeting of large-scale programs of the social protection of population and social services provision. One could hardly deny the fact that in the postindustrial society, without the state's social activities, modern economy cannot function in the normal (stable) way at all. Economizing on social expenses may provide only inconsiderable and temporary material support to the economy. In the long run, such economizing can lead to a heavy economic downfall. In view of this, one can make a conclusion that the socialization of the modern budgetary process is a regular phenomenon that is to secure a platform for economic growth.

At the same time, separate change factors call for a systemic reform of the entire budget system, which is the basis of the social security of population. The necessity of a more rational use of large budget resources connected with social security and the increase of the overall efficiency of system functioning was ripening gradually and has become manifested as early as 1960s–1970s. Within the said period, first steps were made towards the implementation of such changes. However, at that time, mainly due to "internal" factors, the changes were predominantly episodic, fragmentary and at times event experimental. A need in urgent system changes has become especially acute under the influence of those societal developments that manifested themselves vividly in the end of the said period.

By early 1980s, the potential of previous and mostly extensive type of budget funds use for social needs has run its course. As a result, the budget system is experiencing a totally new stage of its development, which, in certain ways, changes its paradigm. In the presence of a set of different circumstances, we would like to emphasize the two decisive ones — demographic shifts and an increasing, compared to previous decades, instability of economic development in the conditions of globalization. To demographic changes belong, in particular, the increase of the share of elderly people in populations everywhere, "the grey revolution" of the main clients of the state social security system" [20]. The ratio of taxpayers to budget funds consumers has changed; thus, while it was 16 to 1 in 1950, in the first decade of the 21st century it constitutes 2 to 1 [21, p. 6].

The said trend may perform a negative impact on economy and lead to the increase of pressure on the budget sphere. The threat is on the rise, of workforce deficit and further aggravation of tax burden to a level that is inacceptable for economy and the working population being the main subject of the former. This leads to constant growth of deficit in the budget system, since payments in the form of transfers exceed receipts from social and taxation payments. The budget system gets into a cycle of virtually uninterrupted crisis, which is already sensed in Ukraine. According to researcher forecasts, as soon as in 2018, most countries of the world will face this issue, and in 2014, budget system will be able to secure only 75% of payments that it is supposed to provide [22, p. 210]. Mid-1970s – early 1980s marked another tendency that calls for the reform of the budget system in the face of a relatively profound and lasting crisis. And the reason here is lies not only, and perhaps, not so much in the conditions of product sale, as in the state policy — in the stimulation of cumulative demand, due to narrow space in the conditions of direct production (supply) and the stimulation of capital accumulation process. The increase of social security payments from the budget occurred at the time when the economic possibilities of satisfying the need for such payments are decreasing. The extensive way of tax burden increase has approached the "natural" borderline. Crossing the borderline brings about negative consequences in respect of labor motivation (social tax on wages) and entrepreneurial activity (income tax). The rise of unemployment level impacted payments considerably, and the entire financial basis of the budget system is under threat. New "challenges" of socioeconomic development, which possess a bilateral character, have brought up the issue of budget resource efficiency. Scientists started talking about the crisis of the extensive variant of the budgetary provision of state's social activities. Thus, at the OECD Conference in 1981. which was dedicated to the "crisis of state welfare", the following four directions of budget system transformation were distinguished:

- expansive involvement of public institutions and the representatives of budgeting subjects in the budget process. It was presupposed that in this manner the specific features of certain "client" groups and their special needs could be taken into account most efficiently, as well as "feedback" interaction with institutional structures of the budget system could be best established;

- "decentralization" of management and budgetary financing of social programs with the aim of adapting them to local conditions. The increase of independence of each budget system component in decision-making concerning the use of budget resources was presupposed.

- change of the internal architectonics structure of budget system and the correlation of its main institutional structures. The implementation of "free market principles" was presupposed in their interrelation based on the efficiency of budget resource use;

- "deinstitutionalization" (i. e., going beyond the borders of main institutions) — intensification of interaction with major institutions of "natural social networks" (public-private partnership).

To a larger extent, changes in the budget system are occurring in the stated directions today as well, although they are not obligatory "guidelines", rather, they reflect the experience of separate countries accumulated throughout 1960s–1970s. Budget system reforming may go beyond these directions, but the system definitely calls for the improvement of content and mechanisms that would correspond to modern needs of societal development. Another important constituent of the reforming process is the expansion of its "manifold" foundation on the basis of active involvement of finances of other constituents of the societal system, revision of its role and responsibility in making a share of finances social. The necessity to change the prevailing or "monopolistic" status of the state in the budget provision of separate parts and in the social sphere, in particular, is emphasized by I. Osadcha in her work *Postindustrial Economy: Is the Role of State Changing?* [23, p. 31–42].

Consequently, a viewpoint is gaining popularity that in the conditions of world economy globalization, postindustrial social states ought to undertake measures towards social program "intensification". Parallels are drawn between the reduction of economic growth rates and high budget expenditures in European countries; promoted are humanization of labor life, the broadening of an active employment policy, stimulation of entrepreneurship, guaranteeing of equal competition conditions. It is to these trends that the substantiation and emergence of alternative modes of general welfare are tied, to which modes also belongs the "social investment state" paradigm substantiated by J. Midgley. In his opinion, social investing begins within the productivist approach to the use of budget funds, i. e. social budgeting is subordinated to economic growth priorities [24].

Only provided that these conditions are met will budget system functioning become effective. In other words, there is a need of a radical decrease of the relative significance of the present core of budget regulation, which determines the essence of such regulation. Consistent implementation of this project in its most extreme version would mean drastic changes of the entire societal regulation system, which would lead to the formation of a totally new type of the budgeting system of a country not only in terms of structure — the interrelation of main structural components — but also in terms of contents and vector. A dominant place in the system ought to be occupied, clearly, by private or non-state institutions (family, insured individuals, capital). "Alternative possibilities include a shift from collective to individual mechanisms", M. Einerhand and J. Nekkers note [25].

Conclusions. The world has already taken the above described path, particularly, the path of privatization of separate directions of the social system for the alleviation of pressure experienced by the budget system [26]. In the USA, social security privatization took place through the personalization of employees' insurance payments, i. e. their transfer to individual bank accounts [27]. This privatization was aimed at effecting a partial change of the financing system of future social responsibilities of the state, primarily in the pension payment sector. In accord with the project, employees receive the possibility to transfer up to 4% of the current amount of payments made by them within the social security system (equals to 12.4% of salary) to bank accounts so that when they retire they have the possibility to invest them into investment programs which they themselves choose, which constitutes the "basis of success in a market economy".

The most recent financial crisis made way for the problem of placing social security funds in the financial market. But in order to reduce or minimize risks, the administration undertakes to manage personal accounts. There also may be raised the issue of bank account insurance by institutional structures of the budget system. Clearly, presently this is a concept that is ready for practical application in Ukraine as well, and this refers, which is also very important, to only a comparatively small share of the social security payments of insured employees. In the budget system, it is a special type of privatization: it is a transfer into insured employees' possession of a certain share of their pension payments. Another direction for the alleviation of pressure exerted upon the budget system, perhaps, will be embodied in the corporatization of the social sphere. State and corporate social activities do not exclude, and in many respects even complement each other. A favorable tax climate — preferential taxation of social payments and corporations' expenses, or their exemption from taxation — must be the main tool of the activation of such activities on the state's part. A not less essential way of easing the pressure on the budget system through the complete performance by the state of its functions consists in including the state in the market relations system — active involvement of business based on market approaches to the implementation of a significant part of social projects. Indeed so, because many changes in social policy have occurred in response to business needs or a more general concern about the national competitiveness and the needs of business.

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