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INTERNATIONAL EXPERIENCE OF FEDERALIZATION, DECENTRALIZATION AND FISCAL FEDERALISM FOR UKRAINE: SELECTION OF APPROPRIATE MODEL

This article focuses on the study of world experience of implementation of federalism, decentralization and fiscal federalism. The author describes federal states of the world, analyzes historical causes of their formation and disintegration, researches the influence of ethnic and language issues on evolution of state systems, examines the processes of decentralization and fiscal federalism in Europe in order to provide evidences of non-compliance of federal model to Ukrainian situation. It is also considered the process of devolution in the UK, the weakening of the centralized model of the French Republic, development of fiscal federalism in Spain. The author argues the need for decentralization of power in Ukraine and introduction of fiscal federalism with the preserving of a unitary form of government.

Key words: federalization, federalism, decentralization, fiscal federalism.

Introduction. Recently in Ukraine is being actively discussed the problem of urgent reforming of state system, which is a necessity in view of the requirements of paragraph 11 of Minsk 2 Agreement, providing for constitutional reform the key point of which is decentralization (taking into account peculiarities of particular districts of Donetsk and Luhansk oblasts, agreed with representatives of these districts)¹. The idea of decentralization of power and transfer of powers and financial resources to a local level is positively perceived by public opinion inside the country and by international community. At the official level, based on the statements of the President of Ukraine, Verkhovna Rada Chairman, decentralization is considered as one of the major reforms in Ukraine, which must bring our country significantly closer to European standards of public administration. However, recently, foreign politicians and officials in their statements called for the federalization of Ukraine as an instrument of resolving political and military conflict in the East and general social and economic crisis in the country. The author deliberately does not comment these statements, as he considers them unacceptable, and so that there is interference in the internal affairs of the sovereign state, which is undoubtedly a violation of the principles of international law.

Purpose of the article is to examine experience of implementation of federalism in the world practice and prove the feasibility of conducting decentralization in Ukraine and implementing the principles of fiscal federalism without changing the unitary form of government.

Analysis of recent researches and publications. Significant contribution to the study of state systems of the world made such scientists as V. Holovchenko, M. Doroshko, P. Ignatiev, R. Kryvonos, A. Bolshakov, A. Vavilova, C. Ansell and others.

Statement of the basic material. It is known, most of the countries in the world have a unitary form of government, but there are 28 federations at the modern political map. Six of them are in Europe: Russian Federation, Republic of Austria, Federal Republic of Germany, Switzerland, Bosnia and Herzegovina, Belgium.

Seven situated in Asia: Republic of India, the Islamic Republic of Pakistan, Malaysia, the Republic of the Union of Myanmar, the Republic of Iraq, the United Arab Emirates and the Federal Democratic Republic of Nepal (though Nepal may be attributed to federations conditionally, since the Constitutional Assembly of this state for the second time has failed to adopt a new constitution before the deadline, which expired in January 2015, due to contradictions between leading political forces just about the state system).

Six federations exist in Africa: Federal Republic of Nigeria, the Federal Democratic Republic of

¹ Minsk agreement on Ukraine crisis: text in full as of February 12, 2015. *The Telegraph newspaper website*. <<http://www.telegraph.co.uk/news/worldnews/europe/ukraine/11408266/Minsk-agreement-on-Ukraine-crisis-text-in-full.html>> (2015, May, 05).

Ethiopia, Republic of Sudan, Republic of South Sudan (debates about the form of federalism in South Sudan are in full swing, but the very federalism is not the subject to discussion), the Union of the Comoros and conditionally Federal Republic of Somalia, which de-facto does not exist as an integral country and has already become a classic example of failed state. Until quite recently the list of federal states included Tanzania, but now it is a unitary state with a rigid centralization.

In America, there are seven federations: United States, Canada, United Mexican States, Federal Republic of Brazil, the Argentine Republic, Bolivarian Republic of Venezuela, the Federation of Saint Kitts and Nevis. Two federations are in Oceania – Australia and Federated States of Micronesia.

Despite the fact that federations in the total number of states constitute only 14 %, but their area is half of the Earth's land, and their territory is inhabited by one third of the world population. Another feature is concentration of federations in the Western Hemisphere, where they take four-fifths of the territory. The role of federations in the world economy is important, and tends to increase, because besides the recognized economic leaders of the world: the US, Canada and Germany, India and Brazil have significantly increased their economic power.

Federalism is inherent to multi-ethnic countries (Ethiopia, India, Canada, Nigeria, Russia) where there is a mix of territorial, political and national principles, and mostly monoethnic states (Australia, Austria, Argentina, UAE, Germany) with their territorial and political principle of state system.

It should be noted that there is no connection between the state system and its political regime, democratic or undemocratic. Thus, to the US, Canada, Austria and Germany, where there is a competitive or conciliation democratic system inherent principle of federal government, but the same principle was formally introduced in the totalitarian USSR and Brazil and Yugoslavia, where military and authoritarian regimes existed. Meanwhile, unitary system was implemented in Nazi Germany and fascist Italy, but now vast majority of modern liberal democracies is unitary.

The number of federations in the world is constantly changing, for example, Ethiopia became federation in 1994, Bosnia and Herzegovina in 1995, the Republic of Iraq in 2005. Czechoslovakia split into the Czech Republic and Slovakia in 1993, the State Union of Serbia and Montenegro ceased to exist in 2006. In 2011, the Republic of South Sudan proclaimed its independence, and became a federation according to the interim constitution.

Historic homeland of federalism is Western and Central Europe. The first federal state in Europe was Swiss Union (1291). In Germany, the joint struggle against the tyranny of princes led the Confederation of the Rhine that existed from 1254 to the beginning of the XV century, and less durable alliance of 14 Swabian imperial cities (1376-1389). In 1381 the two associations of cities established allied relations. Practice of the Hanseatic League (1355-1667) is also well-known. Later, however, Germany lost its federal status and returned to it only during the formation of a single state. Historically, country like the Netherlands, also was a centralized federation, but then it was quite successfully transformed into a unitary state¹.

Before World War II, the idea of federalism was unpopular, existed a tendency to increase unitarization of federations even in democratic countries, not mentioning the example of the Soviet Union, where there was federalization at the ideology level, but in fact it was reinforced centralism. Historically, more recent examples of the transition from federalism to unitary system in Rhodesia, Cameroon, Indonesia also confirm low popularity of federalism. Among the main reasons for defeat of federalist projects in these countries are considered tribalism, lack of democratic institutions and political immaturity of leaders, who were not ready to compromise.

In 50-s of XX century began flowering of federalism. In particular, took place changes in the traditional federations (USA, Switzerland), occurred revival of federalism in Germany. Due process of decolonization, new states: India, Pakistan, Nigeria, chose federal system. At this time also were formed "socialist federations" - Czechoslovakia, Yugoslavia. Federalism was considered as a method to resolve national issues, empowerment of the territorial units was welcomed by most democracies, and asymmetry perceived as a positive trend.

Finally, federations based on the union of states, that were contracted and established "bottom up" were short-lived and broke up like the Soviet Union, Yugoslavia and Czechoslovakia (except for monoethnic UAE and Malaysia), or in the course of time, during the process of centralization became, in

¹ Большаков, А.Г. (2007). Судьба федералистских проектов на постсоветском пространстве. *Полития*, 1, 112-125.

fact, constitutional federations (USA, Germany, Switzerland), where autonomous entities have no right to secession (exception is Canadian Quebec, for which that right is recognized, although in referendums in 1980 and 1995 a slight majority opposed).

Attempts of the southern states to separate from the US were suppressed by armed force as a result of the Civil War 1861-65. In 1847 a similar events took place in Switzerland. Currently, the constitution of Ethiopia of 1994 is the only federal constitution, allowing secession¹. According to the Constitution of this state, the right of secession is formulated as the right of nations, nationalities and peoples of Ethiopia, but not a right of states. Thus, the Constitutional recognition of national (ethnic) sovereignty is realized².

The reason of disintegration of the most federations which were based on the alliance of states (especially the USSR and Yugoslavia) in addition to the non-democratic state system was that they were established on national (national and territorial) basis. The desire for real national self-determination outweighed integration processes and the possible economic benefits.

So, in present time, federalism, in general, does not considered as a form of solving national issues (exception - the introduction in 1993 the division of Belgium on French-speaking, Flemish and German speaking communities), but national and linguistic factors continue to play an important role. Nowhere in the world the number of subjects of federation matches the number of ethnic groups (in Nigeria 36 states and one federal capital territory, although more than 250 ethnic groups; 13 states and the federal territory in Malaysia, while in the only Sabah live 23 ethnic groups). However, a number of states in India to some extent established with regard to national and linguistic features (Assam, Gujarat, West Bengal, Punjab, Tamil Nadu etc.), But in others (Nigeria, Myanmar, the Republic of Sudan) in order to combat tribalism division on the subjects was specifically conducted so as to combine several tribes in one state or great nation divided between different states³.

Thus, one of the major factors that contribute to increasing barriers which divide the territorial state is the language. Political and linguistic borders often overlap (Estonia and Latvia, Norway and the Czech Republic, Malta and Japan), but not always, for example the population of Germany, Austria, Luxembourg, Liechtenstein, autonomous Italian province of Bolzano (Botsen) - South Tyrol and much of Switzerland speaks German; the population of France, Monaco, Belgium and parts of Switzerland and Quebec speaks French. In cases where the linguistic and territorial boundaries coincide, the language becomes not only one of the main elements of territorial identity awareness, but also the most effective instrument of territorial concentration. In Ukraine, the language problem is being discussed, but is Ukrainian situation comparable to the Indian?

The vast majority of Indians, about 74%, speak languages of Indo-Aryan language group of Indo-European language family and inhabit the northern and central parts of the state: Hindustani people (along with similar ethnic groups - 41% of the population), Bengali people (8.1%), Marathi people (7 %), Gujarati people (4.5%), Oriya people (3.2%), Punjabi people (2.8%), Assamese people (1.3%), Kashmiri people (0.4%), Sindhi people (0.3%) and others. South India is populated by representatives of Dravidian language family (about 24%), Telugu (7.2%), Tamil (5.9%), Kannara (3.7%), Malayalam (3.2%), and others. A few peoples of north-east and east India speak languages close to the languages of Indochina (Santhal people etc.), and along the borders with China, Nepal and Bhutan live tribes belonging to the Sino-Tibetan language family (Bodo and Manipur etc.)⁴.

Languages of 23 ethnic groups, referred to above, as well as English, Urdu (Hindustani second literary form that emerged in the sixteenth to the eighteenth century and has 80% of the Arab-Persian loans, Arabic script is used there unlike Hindi, where Devanagari script is used) and Sanskrit (literary decorated type of ancient Indian language) listed in the annex to the constitution of 1950 as the official⁵.

Given such ethno-linguistic picture the nationwide language of India constitution of 1950 defined Hindi on the Devanagari graphics, but for 15 years from the date of the Basic Law was adopted, English was used for all official purposes. All paperwork in the country's Supreme Court and higher courts of the

¹ Белавина, Ю. (1999). Проблемы сецессии в Российской Федерации. *Право и жизнь*, 24, 35-38.

² Constitution of Federal Democratic Republic of Ethiopia adopted December 8, 1994. <<http://www.refworld.org/docid/3ae6b5a84.html>> (2015, May, 05).

³ Головченко, В.І. (2012). *Порівняльна політологія: курс лекцій*. Київ: ІМВ.

⁴ Data from the World Factbook. *Central Intelligence Agency*. <<https://www.cia.gov/library/publications/the-world-factbook/index.html>> (2015, May, 05).

⁵ Constitution of India: full text. *Indian Governmental Portal*. <<http://india.gov.in/my-government/constitution-india/constitution-india-full-text>> (2015, May, 05).

states was conducted in English till the adoption by parliament another legislation decision. However, approval Hindi by the constitution as the national language was perceived in the south and east of the country as a national disaster because for decades the movement against the spread of Hindi was noticeable destabilizing factor in political life. Finally, in 1987 the Parliament of India fully recognized the legal equivalent of the Constitution in Hindi and English. Previously, full official text was recognized only in English. This is a real confirmation of artificiality of the language issue in Ukraine, which is used for political manipulations.

National and linguistic problems exist around the world; they are quite acute in Europe. However, here found its own way to resolve these issues without changing the state system. Over the past decades in many unitary states (Britain, Spain, Italy, Poland and others) is clearly determined a trend to decentralization, transfer to local authorities as much power prerogatives and functions.

For example, in Italy, there are differences between the regions with ordinary status and those regions which retain a special status under specific cultural, ethnic or historical features, and have extended powers (Valle d'Aosta, Sardinia, Sicily, Trentino - Alto Adige, Friuli - Venice - Julia. However, fundamental principle remain in effect, that the entire power structure from top to bottom is determined by the central government authorities. Decentralized establishments are not entitled to make whatever changes at their own discretion without the consent of the central government.

In the context of the recent referendum on the independence of Scotland, which took place on September 18, 2014 and ended with the victory for supporters of the integral state, the United Kingdom should be mentioned. The form of state system of the Kingdom is legally a unitary state. However, elements of territorial autonomy, particularly when Labour Party was in power, increasingly characterize the status of historical regions - Scotland, Northern Ireland and Wales. In particular, there is Scottish Office in the Government of the United Kingdom, headed by the minister - a member of the Cabinet, who solves issues of local character.

In the lower house of the British Parliament on a regular basis functions so-called Scottish Grand Committee, which consists of deputies elected in the Scottish districts. It considers bills relating to Scotland, and makes appropriate recommendations to Parliament¹.

Since May 1999, has been functioning elected by the population local representative bodies - Parliament in Edinburgh (Scotland), which has the power to adopt laws, the budget and adjust taxes and Assembly in Cardiff (Wales), which has purely symbolic value, since all matters related with legislation and budget allocations remained in the hands of the British government. Northern Ireland till the introduction in the 1972 so-called direct rule had real territorial autonomy within the UK: there existed elected public representative body (Stormont) and the government of autonomy. But only T. Blair government, after all setbacks of predecessors to receive military victory over the Irish Republican Army (IRA), succeeded to secure the conclusion in Belfast, with political wing of IRA - left nationalist party Sinn Fein "Good Friday Agreement" on April 10, 1998.

This agreement included the establishment of an elected legislative body in Ulster and conclusion the border agreement between the Republic of Ireland and Northern Ireland. Meanwhile, the official transfer of power from London to Northern Ireland Assembly was delayed to May 8, 2007, when the latter succeeded to form a coalition government led by the leader, founded in 1971 pro-British Democratic Unionist Party.

The process of providing more autonomy to Northern Ireland, Scotland and Wales received in the British political literature the name of devolution, but it is certainly far from federalization of Britain. United Kingdom still remains a unitary state, and in the words of former Prime Minister T. Blair "is the most centralized system of government of all the great powers of the Western world"².

In contrast to Great Britain, French political history imbued with the traditions of administrative centralization that fully and comprehensively revealed itself after the adoption of the so-called Civil Code by the decree of the First Consul of France Napoleon Bonaparte (1769-1821) on March 21, 1804. The famous British Marxist historian and member of the British Academy Eric Hobsbawm said thereupon: "He embodied all that his predecessors had predicted"³.

Great relicts of French law, codes that became a model to all not Anglo-Saxon world have been created by Napoleon. The hierarchy of positions from prefects and lower in courts, universities and schools

¹ Головченко, В.І. (2012). *Порівняльна політологія: курс лекцій*. Київ: ІМВ.

² Крижанівський, В.П., Дорошко, М.С., Головченко, В.І. та ін. (2012). *Країнознавство: підручник*. Київ: Знання.

³ Hobsbawm, E. (1996). *The age of revolution: 1789-1848*. New York: Vintage books.

has been designed by him. Large careers of French public life, army, civil service, education, rights still have Napoleonic order and shape"¹.

American political scientist C. Ansell believes that the influence of traditions of administrative centralization is clearly seen in our time, except France, as in Belgium, Greece, Spain, Italy and Japan, which he included in the category of so-called Napoleon States. To all them inherent such features as "integration of the state with a single administrative and territorial structure. Sub-national units (e.g. departments) are subdivisions of national authority and managed by the prefects, who are agents of the central government"².

French regions, which establishment began in 1972 and in 1982 was formed the first region - Corsica, in their essence are local communities (that have no edictal powers). They are no different from other communities of this type (departments and communes) than larger geographical scope and scale of matters within their competence. Regional councils have the opportunity to make decisions and implement them in practice only in the ordering of the territory. In all other areas of public life the competence of regions is reduced to the implementation of decisions and regulations at the regional level adopted under national law.

In the departments operate bodies of self-government the General Councils, composition of which is elected for 6 years by the majority system with update half every 3 years. The central government has representation in the face of prefects appointed by the president. According to the law on decentralization of administration of 1992, the prefect resides the main city of the region and the department, carries out administrative control over the acts of the regional institutions and coordinates the work of local public services. In communes, local power is implemented by municipal councils, which are elected by the population for 6 years. The municipal councils from among their members elect the mayor, who is the head of the administration of the commune³.

Thus, the decentralization trend in Europe is very strong, which affected even such centralized state as the French Republic, but the crucial in decentralization is the transfer of financial flows to local level, which is directly connected with the concept of "fiscal federalism". Fiscal federalism describes the basic principles of the budget system: combination of self-sufficiency of budgets of separate levels and intergovernmental relations. Fiscal federalism in this sense is peculiar to countries with diverse political and state system, not just the federal state. Some special status belongs to administrative and territorial entities in unitary states: Scotland and Northern Ireland in the UK, the Basque Country and Catalonia in Spain, and others.

Fiscal federalism requires fulfillment of three necessary conditions: clear division of powers between all levels of government on expenditures, providing financial resources to appropriate levels of power, sufficient to implement the powers transferred to them, smoothing imbalances of various budgets by using intergovernmental transfers which are carried out under strict rules.

There are two basic types (models) of fiscal federalism, decentralized and cooperative. The differences between them lie in distribution of functions for revenues and expenditures between the center and regions and principles of intergovernmental transfers. Cooperative fiscal federalism differs from the decentralized with greater participation of regional and local authorities in the distribution of tax revenues and more intense intergovernmental equalization (not only vertical but also horizontal). It is clear that the signs of this type of fiscal federalism are more marked in federal states (e.g. Germany)⁴.

The bulk of the total revenues of the central budget and own revenues of the regional (local) budgets is formed from various taxes. The division of tax revenues between the budgets is carried on in two ways: 1) different types of taxes are sent to different budget levels (own taxes), 2) the same tax is distributed between budget levels in certain proportions (regulatory taxes). The national budget systems greatly vary in correlation and peculiarities of methods of division of taxes.

Terms of division of taxes to the central (federal), regional and local are rather conventional. The most obvious principle is a matching of place of business and finance of that activity. For example, implementation by state of the defense of its customs space and national market requires that all fees are received by the central budget. In contrast, real estate taxes and personal transport are advisably passed to a

¹ Hobsbawm, E. (1996). *The age of revolution: 1789-1848*. New York: Vintage books.

² Ansell, C. (2011). *Pragmatist democracy: evolutionary learning as public philosophy*. Oxford university press.

³ Дорошко, Н.С., Есдаулетова, А.М., Крыжановский, В.П. и др. (2012). *Страноведение: учебник*. Астана.

⁴ Педченко, Н.С., Заворотний, С.І. (2013). Бюджетний федералізм у фінансовій системі держави: моделі та принципи. *Наукові праці Кіровоградського технічного університету*, 24, 320-326.

local budget, as it finances local infrastructure, landscaping and more. This also justifies transfer of local taxes on use and protection of natural resources and the landscape of the local importance.

In Germany, communities gather "real" taxes (professional activities tax, land tax) and consumption taxes (taxes from entertainment businesses, sale of alcohol, taxes on animals, intermittent residence, fire teams). In France, administrative units get four main taxes, existing since the time of the Revolution: tax on built-up land, housing tax, "professional" tax (houses owned enterprises, and partly from wages), other taxes on property¹.

Division of general taxes between budget levels for certain quotas is different and has a different explanation. In France, the income tax completely enters the central budget, although here is recognized the principle of conformity rights and responsibilities of citizens and a certain level of power. Similarly, is formed the main part of the US federal budget revenues (in 1993 the amount of personal income tax and tax and social security contributions amounted to 81.3% of revenue)².

The proportions of distribution of general taxes and even dividing of their own taxes between budget levels ultimately are dictated by the need to balance revenues and obligatory expenditures of every budget. Therefore, the transfer of spending powers from the center to the regions, and necessary increasing of expenditures of regional budgets must be accompanied by the transfer of certain amounts of taxes (in the whole or in part in the form of increased quotas).

Countries differ in the distribution of total income between budget levels. Here much depends on the structure of the fiscal system, public confidence in the various levels of government, the alignment of political forces, etc. It should be emphasized that there is no direct correlation between the degree of centralization of budget revenues and intensity of the participation of the national government in the regulation of regional development. It is important how the state manages the revenues of the national budget: what expenditures on the territories forms the center, what is the value of the financial assistance provided to the territories.

Large countries (USA, Canada) have relatively lower incomes centralization in comparison with medium and small countries (Belgium highlights among recent with the centralization of incomes - 87%). Federal states (Germany, Austria) have usually relatively less centralized revenues compared to unitary (France, Netherlands). A number of countries with currently high-income centralization of revenues and expenditures (e.g. Italy and Spain) plan their gradual decrease³.

Conclusions. Thus, international experience shows that federalism is no longer used for the settlement of ethnic problems in the world. In Ukraine, the issues of linguistic, ethnic, cultural and historical character are inspired outside in order to destabilize the situation and bring to the loss of sovereignty and statehood. The answer to the current political, social and economic and cultural challenges facing our country is the decentralization of power with the introduction of fiscal federalism mechanisms that involve the transfer to the regions of real power and to provide these authorities with financial tools through the transfer of taxes to local budgets. This is the path chosen by the most European countries in order to ensure stability and take into account interests of regions and ethnic and language minorities.

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¹ Педченко, Н.С., Заворотний, С.І. (2013). Бюджетний федералізм у фінансовій системі держави: моделі та принципи. *Наукові праці Кіровоградського технічного університету*, 24, 320-326.

² Аветисян, И.А. (2011). Бюджетный федерализм и межбюджетные отношения в Российской Федерации. *Экономические и социальные перемены: факты, тенденции, прогноз*, 1, 115-132.

³ Аветисян, И.А. (2011). Бюджетный федерализм и межбюджетные отношения в Российской Федерации. *Экономические и социальные перемены: факты, тенденции, прогноз*, 1, 115-132.