PUBLIC FINANCIAL POLICY ON INDUSTRY SPHERE: FOREIGN EXPERIENCE AND PROBLEMS OF IMPLEMENTATION IN UKRAINE

Abstract

Introduction. Industry serves as the basis for meeting the needs of the national market and building a powerful export potential of the country. The public financial policy should aim at creating favorable conditions for investing in industry, which determines the relevance of the research.

Purpose. The objective of the paper is to carry out a comparative analysis of the main mechanisms of the public financial policy of the industrialized countries of the world, to identify the existing trends in the development of industry in Ukraine, and to make recommendations on borrowing of the global experience in Ukraine.

Results. A comparison of the mechanisms of implementation of the public financial policy in the industry of the United States, China, Japan, Germany, the Great Britain, Italy, and France has been carried out. The trends of industrial development in Ukraine have been determined.

The scientific novelty consists in the recommendations suggested by the authors for ensuring the effective development of the industry, namely: in the creation of the State Innovation Bank, which would undertake soft lending of innovative projects and in the exemption from taxation of enterprises in the event of their merger with a loss-making enterprise. Thus, the state will promote the creation of conditions for the progressive technological development of industry, increase its innovation and investment attractiveness. Enterprises will receive additional or cheaper financial resources, which will be able to invest in modernization and upgrading of productions, primarily high-tech. In view of the effective intended use of resources released as a result of taxation, it is suggested to conclude a special agreement between the controlling body and the taxpayer, according to which the payer will assume the obligation to effectively dispose of the financial resources.

Keywords: public financial policy; industry; mechanism; incentives; innovations

ДЕРЖАВНА ФІНАНСОВА ПОЛІТИКА В ПРОМИСЛОВОСТІ: ЗАРУБІЖНИЙ ДОСВІД ТА ПРОБЛЕМИ РЕАЛІЗАЦІЇ В УКРАЇНИ

Анотація
Вступ. Промисловість виступає базою для задоволення потреб національного ринку і формування потужного експортного потенціалу країни. Державна фінансова політика має бути направлена на створення сприятливих умов для здійснення інвестицій в промисловість, що визначає актуальність дослідження.
Мета. Метою статті є проведення порівняльного аналізу основних механізмів державної фінансової політики промислово розвинутих країн світу, виявлення існуючих тенденцій розвитку промисловості в Україні та подання рекомендацій щодо запозичення світового досвіду в Україні.
Результати. Проведено порівняльну характеристику механізмів реалізації державної фінансової політики у промисловості США, Китаю, Японії, Німеччини, Великої Британії, Італії, Франції. Визначено тенденції розвитку промисловості в Україні.
Наукова новизна полягає у запропонованих авторами рекомендаціях щодо забезпечення розвитку промисловості, а саме: у створенні Державного інноваційного банку, який би брав на себе пільгове кредитування інноваційних проектів та у звільненні від оподаткування підприємств у випадку їх злиття із збитковим підприємством. Таким чином, держава сприятиме створенню умов для прогресивного технологічного розвитку промисловості, підвищення її інноваційно-інвестиційної привабливості. Підприємства отримають додаткові або дешевші фінансові ресурси, які зможуть вкладати у модернізацію та оновлення виробництва, в першу чергу високотехнологічних.

Ключові слова: державна фінансова політика; промисловість; механізм; пільги; інновації

Relevance of the research topic
Industry development and economic growth are tightly connected with one another, since production, including the industrial one, is the basis of economy, upon which depend the development of another economic branches, labour productivity, the unemployment rate, the population’s living standard, functioning of the domestic market, the production competitiveness, export volume, investment attracting, etc.
Nowadays, the main world trend is the industrial production recovery, that is why the public financial policy should be directed on creating favorable conditions for the investment in this branch, and this fact determines the urgency of the research. Ensuring the sustainable and effective industrial development is possible when different instruments of fiscal, budgeting, credit policies are being used to support industry.

N. Vasylieva, N. Kichuk, D. Martynovich, O. Miahkova, O. Salkhova, M. Tarasiuk, V. Khustova, I. Chychkal-Kondratska [1-8] is only a partial list of scientists, who analyzed the public financial policy in the world industry and the Ukrainian one. The article used and analyzed considerably broader list of literary sources that highlight these issues. The problem of the public financial policy implementation in industry is a result of a complex interaction of push-and-pull factors, which originate externally and internally. External ones include insufficient adaptivity of national economies to external shocks; the high level of public debt within the developed countries; the lack of efficiency in budget policy, etc. Internal macroeconomic factors include the level of fiscal burden on capital; terms for crediting business; the volume of various programs and projects funding from the budget; the exchange rate of the national currency; oppression of international investment; deterioration in external economic environment; reduction of opportunities for the access to international capital markets. Change in economic conditions under the influence of the pointed factors causes further improvement of the existing mechanisms for the public financial policy implementation in Ukraine considering world industrial achievements.

Task statement

The aim of the article is to conduct a comparative analysis of the basic mechanisms of public financial policy at industrialized countries of the world, to identify existing trends of industry development in Ukraine, and to make recommendations regarding borrowing the international experience in Ukraine.

Presentation of the main research material

Recently, we can observe negative tendencies in Ukrainian industry. They are slow growth of production volume and the share of industry in gross value added, decrease of innovative and investment activities, strengthening of ineffective specialization, increase in proportion of the low-technology (food, light, timber, furniture industries) and the medium-technology (oil-refining, coke, rubber, plastic items, non-metal and metallurgical products) energy- and resource-intensive manufactures, the loss of strategic assets in basic industries for the country (metallurgy, chemical and coal industries) etc. Structural deformations strengthening in the national economy regarding faster increase of its raw material sectors has led to the decrease of industry technological development level, intensification of intersectoral and territorial disproportions, decline in exports and faster import growth. All this demonstrate the loss of Ukrainian economy competitive advantages on global markets.

Nevertheless, the comparison of Ukrainian industrial sector at the global level, conducted by the Institute for Economic Research and Policy Consultant, and German Advisory Group, shows that industrial branch is still of greater importance in Ukraine, even than the EU-28 average, and of approximately similar weight for the economy, as in neighbouring Poland and Belarus [1, p. 36]. To save these positions enhancing, the structural and technological transformation of industry is required, considering the experience of the global industrial lead countries.

Let us review the specifics of public financial policy of leading countries, which possess the largest share in creation of gross value added in the global industry. Thirty years in a row, the United States of America were heading such a list. However, the rapid development of China industry, in particular, electronic and electrical engineering sectors, as well as relocating the production of American transnational companies to the Chinese territory, allowed China not only to get ahead of Japan, which set the second position, but, afterwards, to be ranked first at this list. The next constantly stay Germany, Great Britain, Italy, and France.

As the experience of these countries shows, the public financial policy for supporting the development of industrial enterprises includes the following mechanisms. They are concessional lending for business entities; targeted subsidies from Governments; the pledges to credit institutions and commercial banks in granting loans to enterprises; involving non-state financial and credit entities, as well as economic ones, into provision of financial assistance for entrepreneurship [2, p. 92]; state orders (public-private partnership); tax incentives; depreciation incentives; grants.

Mechanisms for implementing state policy regarding the industrial enterprises support that are most frequently used within countries are presented in Table 1.

Mechanisms for public financial policy implementation have their peculiarities in each country, as they are tightly interconnected with national identities, economic development, economic and political institutes that operate in the country. The use of the mentioned mechanisms for achieving a particular purpose of public financial policy is in greater detail presented within Table 2.
As international experience shows, the state is directly involved in the industrial sector development. The public financial policy in industry is aimed at creating favorable conditions for both the establishment of a new enterprise and the functioning of an existing one, and it has a stimulating and selective character, considering the directions of the socio-economic development of countries.

For all the countries reviewed, an important goal of public financial policy, despite its innovative achievements, is the intensification of innovation activities, on which technological modernization of industry depends. Ukrainian industry is characterized by low activity in introducing innovations, since GDP growth on the basis of new technologies is less than 1%, the proportion of Ukrainian industrial enterprises introducing innovations is 10%, while in Germany - 66%, in France - 46% [7, p. 421], the proportion of newly introduced or significantly improved products in the total industrial output in Ukraine is 3%, in France - 30%, in Germany - 50% [8, p. 155]. Approximately the same situation (the gap is 3-5 times from the developed countries) in terms of the specific weight of innovatively active enterprises is observed in certain types of industrial activities, in particular, manufacturing, woodworking, metallurgy, mechanical engineering, etc. Industrial enterprises of Ukraine have to produce competitive products, to conquer new markets, so it is necessary to introduce new technologies and focus on the production of goods and services with a high content of value added.

Budgetary constraints in the country (or, as they say in the government, budget expenditures optimization) and limited internal funds at industrial enterprises lead to a reduction in the financing of innovative projects that further deepen the technological gap between Ukrainian and foreign enterprises. In such circumstances, it is worth taking advantage of the experience of Germany or China in focusing on concessional lending or the provision of credit guarantees for the innovative projects implementation. For example, in China, in order to stimulate innovation, the law has introduced a mechanism for targeted support by banks of enterprises that are implementing new projects, using new technologies. The KfW banking group ("Reconstruction Credit Institute") in Germany provides an interest-free loan for newly established enterprises that will be engaged in innovative activities, as well as loans to existing companies that are technologically oriented. In Ukraine, it would be worthwhile to create a State Innovation Bank, which would take on concessional lending to innovative projects. In practice, it will lead to cheaper financial resources, their investment in the modernization and renovation of production, primarily high-tech (machine engineering, pharmaceuticals, chemical industry), - at the enterprises level, and the creation of favorable conditions for the progressive technological development of industry, increasing its innovation and investment attractiveness - at the state level.

One of the public financial policy mechanisms used by countries is tax incentives. For example, in France, for starting enterprises (including research and development), income tax is reduced by 50% in the first 5 years in the UK an investment tax credit is granted in the amount of 50% for new equipment, technologies, materials when operating for the first year; in Italy, 100% of expenditures for R&D are deducted from taxable income. It would be interesting to learn the USA experience in providing tax incentives. Thus, in a country, a starting company that was formed because of a merger with an unprofitable enterprise is exempted from paying taxes during the year.

### Table 1. Mechanisms for implementing the public financial policy of industrial enterprises support within the world countries

<table>
<thead>
<tr>
<th>Mechanisms</th>
<th>USA</th>
<th>Japan</th>
<th>China</th>
<th>Germany</th>
<th>Great Britain</th>
<th>Italy</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concessional lending</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Subsidies</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>State-guaranteed loans</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Involving non-state entities into provision of financial assistance</td>
<td>+</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>+</td>
</tr>
<tr>
<td>State orders</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Tax incentives</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Depreciation incentives</td>
<td>+</td>
<td>+</td>
<td></td>
<td>+</td>
<td></td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Grants</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>

Source [1, 3-6].
Table 2. The purpose of public financial policy and the mechanisms of achieving it at the industry of world countries

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>fostering the innovation processes</td>
<td>direct subsidized financing; tax incentives; grants; government guarantees by providing long-term loans for promising areas of research; accelerated depreciation of equipment and instruments used for research and development (R &amp; D)</td>
</tr>
<tr>
<td>increasing industry competitiveness</td>
<td>state assistance in developing technologies for the digital industry, high-tech materials, new materials for industrial production; state orders; progressive taxation of small enterprises profits; government support for clusters</td>
</tr>
<tr>
<td>fostering the innovation processes</td>
<td>fiscal subsidies; concessional lending of subordinated to different ministries research institutes, state corporations, research centers that carry out research and development together with private companies, including through the cluster system; tax incentives, foreign trade and industry benefits, including the ones for small businesses</td>
</tr>
<tr>
<td>fostering the energy saving and the environment protection</td>
<td>accelerated depreciation for companies that use energy-saving equipment or equipment that promotes efficient use of resources and does not harm the environment</td>
</tr>
<tr>
<td>fostering the innovation processes</td>
<td>financial credits and targeted loans; foreign currency loans for specific projects; grants; targeted support by banks for innovative projects; preferential taxation; state support for clusters</td>
</tr>
<tr>
<td>export promotion</td>
<td>partial refund of value added tax, which rate is differentiated depending on the category of goods exported</td>
</tr>
<tr>
<td>fostering the innovation processes</td>
<td>state financial support for long-term and risk-based research in key areas of scientific, technical and industrial-economic activity; grants for the advanced training of research staff; targeted free grants to enterprises, mastering a new technology; payment of expenses for projects technical expertise</td>
</tr>
<tr>
<td>establishment and support of the high-technology companies</td>
<td>budget funding; concessional lending, the provision of guarantees for loans through the KfW banking group for the projects implementation in production technology, energy sources; state orders; financing through public funds; subsidies to small enterprises; financing of federal venture capital programs (the High-Tech Company Formation Fund Program (High-Tech Gründerfonds) and the EXIST Program, which aims to create new companies on the basis of universities and strengthen the commercialization of university research by providing individual grants) – within the framework of science-industry alliances</td>
</tr>
<tr>
<td>fostering the innovation processes</td>
<td>subsidies; grants; tax incentives; financial and technical support of leading universities and state laboratories, state orders; accelerated depreciation</td>
</tr>
<tr>
<td>increasing industry competitiveness on the global market</td>
<td>financing the strategic investments from the state fund; government support for small and medium enterprises (including clusters) through budget, credit and tax policies</td>
</tr>
<tr>
<td>fostering the innovation processes</td>
<td>budget funding of R&amp;D; innovative loans; tax incentives, subsidies to the mining and manufacturing industries for the purchase and leasing of computers; accelerated depreciation for the period of technical re-equipment</td>
</tr>
<tr>
<td>strengthening the competitive position of industry in the domestic and foreign markets</td>
<td>government support for small and medium enterprises (including clusters) through the mechanisms of tax, credit, depreciation, and innovation policies</td>
</tr>
<tr>
<td>fostering the innovation processes</td>
<td>partial budget financing of R &amp; D; state orders; tax incentives; grants</td>
</tr>
<tr>
<td>establishment and support of the high-technology companies</td>
<td>budget funding; concessional lending, the provision of guarantees for loans through OSEO for the industrial launch of a product, the development of innovative technologies, the modernization of production facilities, access to new markets, the implementation of new ways of commercializing products or services; financing through private and public foundations and associations</td>
</tr>
<tr>
<td>improvement of the competitiveness and specialization of the industrial enterprises</td>
<td>state support of enterprises through the mechanisms of tax, monetary and budgetary policies; funding for venture capital programs (Young Innovative Enterprise Program and Young University Enterprise Program, supporting newly created enterprises) – within the framework of establishing science-industry alliances</td>
</tr>
</tbody>
</table>

Source [1; 3-6].
In Ukraine, many enterprises by types of industrial activities remain unprofitable. As of January-March 2018, 32.2% of industrial enterprises posted a loss amounted to 18.8 billion UAH (for comparison, for the same period of 2017 - 37.6% (30.4 billion UAH), 2016 - 42.9% (75.7 billion UAH)). Since 2017, there is a positive financial result of the industrial enterprises activities, which, as of January-March 2018, amounted to 63.4 billion UAH [9]. Such positive dynamics of the industrial enterprises performance is explained, on the one hand, by some economic revival, and on the other, by the liquidation of state enterprises and the privatization of state-owned shares of companies that are strategically important for the Ukrainian economy and require large investments to ensure their development, including energy companies (Centrenergo, Kyivenergo and others), machine-building plants (Ivano-Frankivsk Locomotive Repair Plant, Electrotyazhmash), etc. in accordance with the privatization plan of the State Property Fund in 2016-2018.

It would be worth to borrow the US experience, which would allow enterprises to obtain additional financial resources, and provide the state with an increase in GDP. In order to utilize effectively the resources freed as a result of taxation, we propose to conclude a special agreement between the controlling authority and the taxpayer, according to which the payer will undertake obligations to invest the released financial resources into the restoration, modernization of production, in overcoming the enterprise unprofitability. It is also advisable to monitor the use of financial resources by each payer, because the freed financial resources are actually public, which the state transferred to the payer to perform certain socially significant functions (projects). This can be done by introducing special monitoring accounts to which funds released from taxation are credited, and they are spent exclusively on activities that are appropriate for tax purposes. In case of inappropriate use of such financial resources, they should be directed to the budget.

The basis of the national economic recovery is entrepreneurship. This proves the experience of industrialized countries, in particular, the United States and the United Kingdom, which are ranked as the sixth and the seventh respectively, among 190 countries in the world according to the Doing Business 2018 rating. Ukraine took only the seventy-sixth place in this rating [10]. The UK uses a liberal approach that should provide the best competitive conditions for private production and open access to financial and information resources with minimal government intervention [3, p. 139]. UK government policy provides a significant incentive effect on the development of entrepreneurship through fiscal, credit, and, most of all, tax policy, by providing advisory services to start-up companies and for further business conducting. Ensuring the effective development of small and medium-sized entrepreneurship in Ukraine is within reach providing by further simplification of regulatory procedures, mitigation of bank collateral requirements while forming the initial capital, reduction of tax pressure, etc.

In addition, priority is the cooperation of small and medium-sized enterprises, local authorities, science, education in order to achieve a single promising idea, that is a cluster approach to the economy development, successfully established itself in the world. For example, in Italy, the basic industries in the creation of clusters are machine engineering, electronics, food, light industry, in France - biotechnology, pharmaceuticals, in Germany - the oil and gas complex, and chemistry. The cluster approach in the world is characterized by the fact that science cooperates with business according to the competition principle, that is, enterprises finance science according to the results of ideas, in turn acts as an incentive for scientists to generate applied innovative developments.

Little experience in creating Ukrainian clusters shows the advantages of such entities, both for participating enterprises (Kharkiv Energy Cluster, Khmelnytskyi Sewing Cluster, Woodworking and Furniture Production Cluster), and for certain regions. From the standpoint of ensuring structural priorities, the development of clusters in Ukraine should be carried out for agro-industrial production, food and light industry, that is, in those areas that do not require high capital intensity and production concentration, and therefore are acceptable for the efficient operation of small and medium businesses. In order to stimulate Ukrainian industrial enterprises to create clusters, it is necessary to improve legislation, introduce certain preferences, and provide financial support to such an association during the first years of their cooperation.

Conclusions

Prospects for sustainable development of industrial enterprises in 2019-2020, to a large extent, would be determined by the following factors. They are an increase in the investment attractiveness of the Ukrainian economy for system investors, the restoration of macro-financial stability, a decrease in tax pressure and the provision of tax system incentives, an increase in the resource base of the banking system, and the provision of concessional lending for innovative projects.

In order to stimulate the development of industry in view of the industrial success of developed countries, it has been proposed:

– to create the State Innovation Bank, whose main task would be preferential loans for innovative projects. In the conditions of restriction of the
state budget funds and enterprises’ internal funds, credit resources are an important source of increasing the innovation activity. One of the promising mechanisms of public financial policy is the reduction of the bank loans cost for the innovative needs of industrial enterprises;

– to exempt from taxation the enterprises in case of their merger with an unprofitable enterprise. The financial resources freed as a result of taxation should be directed to modernization, production renewal, and achieving a positive financial result. It is advisable to monitor the financial resources use by the taxpayer;

– to improve the enabling environment for the development of small and medium-sized businesses, including on the basis of the cluster approach, which is the engine of economic growth and has significant competitive advantages for both business and the country.

Industrial enterprises will successfully develop in the event that the state will actively influence their development using the described mechanisms or other instruments of tax, budgetary, credit policies, and this will be the subject of further research.

СПИСОК ЛІТЕРАТУРИ


REFERENCES


