

**JEL: 378 : 372.77] (477)**

**Dombrovska Svitlana Mykolaivna** Doctor of Science in Public Administration, Professor, Head of the Training Research and Production Center of the National University of Civil Protection of Ukraine

**Bondarenko Andriy Igorevich** Candidate of Science in Public Administration, [candidate for a doctor's degree](#) of the Training Research and Production Center of the National University of Civil Protection of Ukraine

## **MECHANISMS OF PUBLIC ADMINISTRATION OF THE FINANCIAL CONTROL IN THE SYSTEM OF STATE SECURITY**

*The problem of efficiency of public administration of the economic mechanism of financial control is getting more and more important nowadays. The control should be made on time, it has to be prompt, high-quality, effective; the forms and methods used by the supervisory authorities should have a versatile character which will contribute to the achieving of the adequate, accurate, reliable information during the controlling procedure. Each inspection or audit should not only contribute to the correction of the deficiencies that exist in the financial sector but also to their prevention, strengthening of the financial discipline, improvement of the work or activities of the entity under control.*

Key words: mechanism of public administration, financial services provision, financial security of the state, financial control.

**Problem setting.** The effectiveness of measures of the state influence on the economic phenomena and processes, as well as the level of self-regulation of the economic system, are largely determined by the relations of control as an integral part of the financial mechanism of the public administration system. A comprehensive analysis of the system of control relations has determined the multidimensional nature of the methodology of research, the need to use a number

of specific methods and techniques are mutually complementary and allow to fully reveal the essence of this notion. In this aspect we agree with F. I. Shamkhalov that the state cannot remain indifferent to the condition of the economy. Market competition always means the gain for some agents and the loss for others and, therefore, without corresponding adjustments by the state it may become a factor of social conflicts and instability both in the economy and in the society in general. The connection between the business and the state comes from the very nature of the liberal democratic system of management. Politicians are elected during the elections and their personal success depends largely on the state of the economy as the voters are primarily interested in the problem solving of employment, inflation, and overall decent quality of life.

**Recent research and publications analysis.** The theoretical and methodological principles of the organization, public administration, forecasting and financial control, which are revealed in the works of the famous scientists, have made the basis of our study.

The scientific bases of the solution of these important governmental tasks are primarily theoretical developments on the mechanisms of public administration that are presented in the works [2; 3; 5].

Among the scientific papers, in which the problems of the state financial control were studied, attention deserve [1; 4; 6].

**Paper objective** is to analyse the economic mechanism of public administration of the financial control in the system of the state security.

**The paper main body.** There are two basic regulatory functions of the state both in the economy and in the society: 1) to ensure the balance of interests of the subjects of economic and social activities of the producers and consumers, urban and rural population, employers and employees, and so on, through the use of the budget, tax, regional and other policies; 2) to ensure the general conditions of functioning and development of each of these areas and their constituent elements.

Our position on this issue coincides with the interpretation of the state functions by other authors. Thus, quite succinct definition of the state role in the

economy of the western society is given by A. A. Porokhovskiy: “We can distinguish at least two aspects of the state role: 1) maintenance and protection of the market system, primarily the market and competition as such; 2) completion of the limited market in those spheres of public life where the market principles could not take hold as contrary to the interests of the society as a whole. This implies that the state by nature of its economic activity becomes both an element of the market mechanism and a stabilizing factor of the social development in general because it takes care of all those functions which are beyond the market”.

Thus, the main objective reason of the state's economic performance is the limitations of the market economic mechanism when the state is assigned with the tasks of elimination of the “market failures”, the main of which can be formulated in the following way:

- the market does not provide social security, does not solve social issues;
- the market is unable to provide strategic breakthrough in the field of science and technology, to ensure deep structural production reforms;
- the market does not meet the needs for public goods, especially those that are not profitable to produce by the private enterprises;
- the market does not solve the environmental problems of production;
- the market does not ensure defence and security of the country.

In all definitions provided by the authors, despite the differences (mainly related to the assessment of the state capabilities to stabilize the economy and social policy) which still remain, the postulates of neoclassical and neokeynesian theories are reflected in which the role of the state in the economy is interpreted as a residual – the state does what the market cannot do.

According to some researchers, there is another reason in the evaluation of the state as a social subsystem that has arisen to perform certain economic functions. First of all, the state was created and exists to maintain the integrity of the community of people living in a certain area and, therefore, should reflect the will and respect the interests of all the constituent members that are situated in this area. At the same time, society as a complex system is characterized by a

hierarchical principle of construction. On the top of this hierarchy (at least since the emergence of capitalism) is the economy. The state, like other social subsystems (morality, law, culture, etc.), is influenced by the dominant subsystem – the economy, and inevitably becomes a participant of economic activities, an agent of market relations, the institution of economic system.

This duality complicates the performance of its functions. On the one hand, to maintain the integrity of the public system as the whole, the state should ensure a balanced development of all subsystems of the society preventing the hypertrophy or extinction of any of them. On the other hand, it somehow reflects the primacy of the economy by, for example, supporting those forms of communication among the economic agents (companies, households, government) which prevail at the present stage of economic development and can be applied to all spheres of public life. It is evident that in most countries of the world this form of communication is the market.

In the modern works of the western and domestic experts, which describe the changes occurring in the development of the world economy, the theory of “new economy” has become wide spread; it examines the phenomenon of post-industrial society, information society or mixed economy. And, according to this, the functions of the mechanisms of public administration of the economy have received a new interpretation.

The institutional theory, which is the main tool of analysis of the economic system of Ukraine, identifies the following tasks of the state: 1) specification and protection of property rights; 2) creation of the information exchange channels; 3) development of the standards of measures and campaigns; 4) creation of the channels and mechanisms for the physical exchange of goods and services: transport network, territory for bidding and so on; 5) law enforcement activity and its role as a “third party” in the conflicts; 6) production of public goods: defence, health protection, education.

The economic system that exists today in most countries can be characterized as a mixed economy which is highly flexible and is socially oriented.

The interests of an individual with his/her various needs are in the middle of this system. The problem of implementation of the regulatory functions of the state, according to G. M. Gukasyan, is to develop such economic mechanisms of market regulation which, while preserving its dignity, would minimize the inherent weaknesses. All these features suggest a new understanding of the state's role, its functions and methods of the economy regulation which may be substantially represented by the following directions of activity:

1. Creation of the public goods. The market is able to meet the demand only for the private goods and production of the public goods (defence, public order, etc.) is assigned to the state.

2. Regulation of the external (side) effects. The external effects are the effects that influence the companies in the production of goods and services provision. They can be both positive and negative.

3. Redistribution of income through: a) procurement of goods and services (public consumption); b) state credits and subsidies; c) tax redistribution; d) social payments.

4. Antimonopoly policy.

5. Support of the fundamental science and scientific and technical progress.

6. Small business support.

7. Macroeconomic stabilisation through fiscal and monetary policy.

6. Regulation of the foreign economic activity.

Thus, on the basis of the above said, the principal economic functions of the state, in our view, can be expressed by the following factors:

- provision of the legal and social environment for the effective functioning of the market;

- creation of the public goods;

- maintenance of a rational scale of the market competition, antimonopoly policy;

- redistribution of income and wealth, redistribution of resources; regulation of the external (side) effects; small business support;

- stimulation of the economic growth and macroeconomic stabilization;
- realization of the effective foreign policy.

On this basis we can characterize the basic functions, directions of the state's operation in the economy as the subject of economic activity.

First of all, the state through the legislative, executive and judicial branches of the government (by creating the relevant institutions) structures and coordinates the interaction of all members of the society and social groups. It includes the economic sphere by maintaining the order within the state and implementing or regulating relations with other states on behalf of and in the interests of all its citizens. The government creates the legal framework of the economy functioning and assures the implementation of the adopted laws and other legal acts (the protection of property rights, conditions of the contracts, and so on). In other words, the state provides the legal framework for various types of transactions in the economy (agreements, management, rationing).

“Any agreement-exchange presupposes the presence of a guarantor – a person, a group of people or a social institution who would perform the function of a subject and who fixes and recognises that the ownership rights on the subject matter have been reallocated between the partners. History shows that this function is performed at the lowest cost for the national economy in the case when the role of guarantor is performed by the state.”

However, in this function of the state, even in the conditions of democracy, the influence of the social hierarchy is inevitably manifested (it is a kind of manifestation of the “principle of subordination”). Therefore, when the government implements this function, the dominant economic groups influence the formation of institutions through lobbying, votes trade and so on. Most of the rules, according to D. North's fair comment, “are created in the interests of the private rather than the public welfare. Therefore, in any society, it is easy to find the rules that deny the right to have a trademark, restrict the entry of the new competitors into the industry or hinder the mobility of the factors of production”. D. North explains the stability of inefficient property rights by the fact that the rulers seek to

avoid conflicts with the influential voters and do not implement effective property rights which are contrary to the interests of the latter, and so, in fact, are guided by the personal, not public interests.

The state creates and maintains the means of communication and provides, if possible, access to information concerning the functioning of the economy to all economic agents reducing the uncertainty, the unpredictability of many economic processes. For example, as noted by V. Tants, “government intervention is necessary to protect the rights of consumers in a market economy, in particular when they themselves cannot obtain the information without which it is difficult to make a rational choice. The modern economy is characterized by a wide variety of goods and services about which the most consumers have a vague idea. Hence, there is a need to expand this type of regulation. Safety of the flights, reliability of the bank deposits, safety of the medical products, food, reliability of the companies, which invest their shares and so on – in all these and similar cases, individuals must not themselves collect the necessary information for decision-making. In this knowledge there is an element of “public good” which, once created, can then be distributed free to all. The state must play a fundamental role in providing society with the necessary information”.

In modern conditions the state's mobility of factors of production (organization of employment services, labour exchanges, stock exchanges, information centres, leasing and so on) become of particular importance for the economic system functioning. Moreover, the state itself either carries out the works on creation of means of communication, or organizes, coordinates, promotes and supervises the work of the private sector to perform these functions.

In fact, the state, forming the legal framework of economic agents, participating in the creation of means of communication, providing access to the right information, creating conditions for increased mobility of factors of production and so on, creates the infrastructure, the environment within which the effective functioning of the economic system is possible. In fact, it means the

limits and creates information channels of passing of the backward and forward linkages that permeate the system of relations between all economic actors.

The second trend directly reflects the entrepreneurial function of the state. The state performs its production activity on the basis of the state sector of the economy. Unlike the private entrepreneur, the government focuses not only on the profit earnings but also on the successful functioning of the economy as a whole. As has been already noted, this duality largely determines the specifics of the state of entrepreneurship in a market economy. Production of the solely public goods (national defence, protection of public order) is a complete prerogative of the state. At the same time, the partial creation of public goods (education, health protection, social insurance) may be carried out both by the state and the private sector of the economy. The state takes over and guarantees only that level of consumption of the partially public goods which currently can be provided with the resources of the state budget.

The third area reflects one of the fundamental functions of the state – creation and maintenance of the competitive environment. The state supports economic relations and the market as the main form of communication between economic agents, as well as the main mechanism of the market – competition. Free competition is a necessary condition for both the economic freedom of producers and freedom of choice of the consumers. The competition is a strategic mechanism of the performance improvement. Competition between the enterprises, their freedom to act at their own discretion, the flexibility of hiring, firing and compensation payments related to this are important incentives to improve efficiency and reduce the costs. It makes the manufacturers to work towards reduction of the production costs and, consequently, to reduce the prices of their goods and services. For this purpose, the manufacturer implements different kinds of innovations, risks, introduction of the new high technologies. In other words, competition acts as a kind of engine of the economic growth.

**Conclusions of the research.** Thus, in practice, the protection of competition means the provision of formally free access to the market and legal



limitation of the extreme forms of monopoly power which reduce the efficiency of resource usage and are detrimental both to the consumers and producers. The state, defining the rules by which the business operations of economic entities are performed, also regulates certain aspects of their functioning, supporting or eliminating these or those spheres of activities of separate individuals or institutions. The adjustment is carried out by influencing the pricing mechanism, the introduction of competition in non-competitive markets through the distribution of the monopoly production, organization of competition for the rights to service markets of the natural monopoly, regulation of the quality standards and so on. In general, the government is committed to support the competitive processes – the freedom of entrance (exit) on the market, a certain degree of competition among the companies to stop unfair competition and extreme forms of monopoly power.

According to A. Nesterenko, the policy of the competition support must include three areas: the promotion of goods on foreign markets (support of export-oriented industries); the reduction of the barriers to the market entry (administrative, created by the regional government, bureaucratic, criminal); the help for the knowledge-intensive industries (which require initial economic support and further promotion on foreign markets). This is explained by the fact that in many cases at this stage of the economic system evolution (when there is some private information known only by the companies, external shocks, unpredictable investment processes and so on) it is a competitive environment that enables the companies to choose the optimal behaviour and promotes efficient use of the resources. In addition, it should be taken into account that the state (having a dual nature) as an economic entity, being the entrepreneur itself, inevitably has to organize the functioning of the state enterprises in the market environment, providing equal opportunities to all the agents.

## **References**

1. [Зіміна І.А.](#) Державний фінансовий контроль : [навч. посіб.] / І. А. Зіміна, О. С. Корнієнко, А. О. Трофімов ; Нац. ун-т кораблебудування ім. С. О. Макарова, Ін-т післядиплом. освіти. – Миколаїв : НУК, 2008. – 209 с.
2. Ковбасюк Ю. В. Європейський банк реконструкції і розвитку: аспекти діяльності : монографія / Ю. В. Ковбасюк. – К. : Вид-во УАДУ, 2002. – 268 с.
3. Місюра В. Взаємодія як визначальний принцип державного управління в умовах громадянського суспільства / В. Місюра // Актуальні проблеми державного управління на новому етапі державотворення : матеріали наук.-практ. конф. за міжнар. участю (31 травня 2005 р., Київ). – К. : Вид-во НАДУ. – 2005. – Т. 1. – С. 241.
4. Орлюк О. П. Фінансове право : навч. посіб. / О. П. Орлюк. – К. : Юрінком Інтер, 2003. – 528 с.
5. Основи державного управління: організаційні структури та фінансовий контроль / [Ж. Ціллер, Г. Гавенс, А. Макгуган та ін.]. – К. : Центр адаптації держ. служби до стандартів Європ. Союзу, 2010. – 206 с.
6. [Розпутенко І. В.](#) Економічне зростання в Україні: проблеми і здобутки : метод. вказівки / І. В. Розпутенко. – К. : К.І.С., 2001. – 135 с.