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RENT AS A FINANCIAL INSTRUMENT FOR REGULATING THE DEVELOPMENT OF THE AGRARIAN SECTOR OF ECONOMY

Abstract. The development of the agrarian sector of the economy, as well as of the entire national economy, should be based on a clear and consistent state regulatory policy. Rent is one of the most effective financial instruments for regulating the development of the agrarian sector.

As a whole, rent is defined as the income of any resources (production factors) owner that is not related to business activity. Onwards, economic rent is an over-income that the owner receives from using a variety of quality resources, the supply of which is limited in the long run. From the financial point of view, rent is part of the entrepreneur's income, his unearned income. The consequence of excessive and uncontrolled macro-level rent-seeking behavior is the so-called «Dutch disease», which causes concentration of labor and capital in the services sector, its outflow from the real economy and the simultaneous replacement with unproductive inputs.

It is determined that the rent saturation of the GDP of Ukraine exceeds the world average values, that designates the national economy as a commodity one, testifies to the developmental, transitive nature of the economy, its direct dependence on the developed countries. Moreover, the dynamics of the annual indices of the physical volume of Ukraine's GDP coincides with the dynamics of its rent withdraw, which shows the direct dependency of goods production and rent, thus defining the economic system as extensive and reindustrialized.

It is proved that amid non-renewable natural resources depletion, the economy of Ukraine is losing its potential and without drastic transformations, changes in technological structure and development of vertical integration, the crisis will only deepen. The implementation of the proposed measures will contribute to the return of rental over-income to those who have a constitutional right to get it, will provide additional financial resources to fulfill local budgets, especially rural territorial communities.

Keywords: rent, rent policy, rent regulation, finance, financial instruments, agrarian sector of economy.

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РЕНТА ЯК ФІНАНСОВИЙ ІНСТРУМЕНТ РЕГУЛЮВАННЯ РОЗВИТКУ АГРАРНОГО СЕКТОРУ ЕКОНОМІКИ

Анотація. Розвиток аграрного сектору економіки, як і всього національного господарства, має базуватися на чіткій і послідовній державній регуляторній політиці. Одним із найефективніших фінансових інструментів регулювання розвитку аграрного сектору економіки є рента.

Показано, що в цілому під рентою розуміють дохід власника будь-яких ресурсів (факторів виробництва), що не пов'язаний із підприємницькою діяльністю. Економічна рента, своєю чергою, — це наддохід, що одержує власник від використання різноякісних ресурсів, пропозиція яких обмежена у довгостроковій перспективі. З фінансового погляду рента є частиною прибутку підприємця, його нетрудового доходу. Наслідком надмірної і неконтрольованої ренторієнтованої поведінки на макрорівні є так звана «голландська хвороба», що призводить до концентрації праці й капіталу у сфері послуг, його впливу з реального сектору економіки і одночасним заміщенням непродуктивними факторами виробництва.

Установлено, що рентна насиченість ВВП України перевищує середньосвітові значення, що характеризує національну економіку як рентно-сировинну, свідчить про розвитковий, транзитивний характер економіки, її пряму залежність від розвинутих країн. До того ж динаміка річних індексів фізичного обсягу ВВП України збігається з динамікою її рентного наповнення, що показує пряму залежність виробництва економічних благ і рентовидобування, тому характеризує економічну систему як екстенсивну й деіндустріалізовану.

Доведено, що на тлі вичерпності невідновлювальних природних ресурсів економіка України втрачає свій потенціал і без радикальних трансформацій, зміни технологічного укладу й розвитку вертикальної інтеграції, криза тільки поглиблюватиметься. Реалізація запропонованих заходів сприятиме поверненню рентного наддоходу тим, хто має на нього конституційне право, забезпечить додаткові фінансові ресурсу для наповнення місцевих бюджетів, особливо сільських територіальних громад.

Ключові слова: рента, рентна політика, рентне регулювання, фінанси, фінансові інструменти, аграрний сектор економіки.

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РЕНТА КАК ФИНАНСОВЫЙ ИНСТРУМЕНТ РЕГУЛИРОВАНИЯ РАЗВИТИЯ АГРАРНОГО СЕКТОРА ЭКОНОМИКИ

Аннотация. Развитие аграрного сектора экономики, как и всего национального хозяйства, должно базироваться на четкой и последовательной государственной регуляторной политике. Одним из наиболее эффективных финансовых инструментов регулирования развития аграрного сектора экономики является рента.

Показано, что в целом под рентой понимают доход собственника любых ресурсов (факторов производства), который не связан с предпринимательской деятельностью. Экономическая рента — суть сверхдоход, получаемый собственником от использования разнокачественных ресурсов, предложение которых ограничено в долгосрочной перспективе. С финансовой точки зрения рента является частью прибыли предпринимателя, его нетрудового дохода. Следствием чрезмерного и неконтролируемого рентоориентированного поведения на макроуровне является так называемая «голландская болезнь», которая приводит к концентрации труда и капитала в сфере услуг, его оттока из реального сектора экономики с одновременным замещением непроемкими факторами производства.

Установлено, что рентная насыщенность ВВП Украины превышает мировые значения, характеризуя национальную экономику как рентно-сырьевую, свидетельствуя о развивающемся, транзитивном характере экономики, её прямой зависимости от более развитых стран. К тому же динамика годовых индексов физического объёма ВВП Украины совпадает с динамикой её рентного наполнения, что указывает на прямую зависимость производства экономических благ и рентодобычи, следовательно характеризует экономическую систему как экстенсивную и деиндустриализованную.

Доказано, что на фоне исчерпаемости невозобновляемых природных ресурсов экономика Украины теряет свой потенциал и без радикальных трансформаций, изменения технологического уклада и развития вертикальной интеграции, — кризис будет только углубляться. Реализация предложенных мероприятий будет содействовать возвращению рентного сверхдохода тем, кто имеет на него конституционное право, обеспечит дополнительные финансовые ресурсы для наполнения местных бюджетов, особенно сельских территориальных общин.

Ключевые слова: рента, рентная политика, рентное регулирование, финансы, финансовые инструменты, аграрный сектор экономики.

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Introduction. The agrarian sector of Ukraine become systematic for the last ten years. Its share in total gross value added in 2017 was 12.1 % and has been relatively stable over the last three years. In addition, agrarian sector entities paid \$4.6 billion taxes to the consolidated budget in 2017, i.e. 14.7 % of all tax revenue and equivalent to \$0.40 for every US dollar of newly created value. Obviously, such a strategic segment of the national economy should not develop spontaneously, without clear and balanced state agricultural and fiscal policy. Furthermore, one of the most effective financial instruments to regulate the development of the agrarian sector is rent.

Research analysis and assignment. V. Budziak, V. Heiets, V. Holian, B. Danylyshyn, B. Kvasniuk, D. Klynovyi, A. Lysetskyi, V. Mishchenko, B. Paskhaver, P. Sabluk, O. Sakal, A. Sunduk, M. Khvesyk and many other scientists devoted their works to issues of rent policy for regulating the development of the agrarian sector, rent payments, rent taxation in Ukraine. In particular, they developed the theoretical and methodological principles of rent payment, mechanisms for making rent payments, their distribution in the conditions of administrative-territorial reform. At the same time, as a financial instrument for regulating the development of the agrarian sector, rent remains insufficiently researched in terms of world economic trends and imperatives of national economy development.

The purpose of the study is to determine the place, role and implementation of scientifically sound rent monitoring in the system of financial instruments regulating the development of the agrarian sector.

Among the main research methods used are analysis, synthesis, generalization, abstraction, historical and monographic analysis and graphing.

Results of the research. From the very beginning of the rent theory and up to now, scientific and political debates over who should claim this type of unearned income are still on. Thus, most ancient and medieval philosophers believed that the earth was created by God, giving it for life to humanity, and therefore all excess from the earth is also a public property. According to W. Petty, the country is lucky if, under the initial agreement, the established rent covers all public expenditures [1, p. 31]. Specifying this thesis, F. Quesnay believed that land rent as the sole source of «net income» was also the only source of taxation. At the same time, he noted that land tax rates could not be determined on the basis of land prices, because the amount of rent depends on the way of agriculture and farms specialization [2, p. 64]. According to A. Smith, rent taxation is the most sophisticated compared to the taxation of wages and returns on invested capital. Since rent is created by nature, not labour, it must belong to society, be levied in favour of the state. Land tax is also levied on fewer officials than other taxes [3, p. 590], and its amount is easier to determine, and it is more accurate, unlike income and capital taxes. However, if the rent is not compulsorily levied, then it can become antisocial, it will be formed during industrial and trade relations, limiting competition.

In Ukraine, an institute of rent relations began to develop actively with the abolition of serfdom and the emergence of private land ownership. To withdraw the absolute rent from the peasants, the mechanism of rent was used, i.e. differential rent of the first type as annual rental rate (serfdom), differential rent of the second type as capitation tax (according to audit registers). Along with this, there was the possibility of buying out the land into private property, as well as redeeming the peasant from the serfdom (ransom). Among the forms of rent payments, the predominant ones were natural and part-time work, and the amount of the rent was mostly determined as a tenth of the output.

In the Soviet period, land-rent relations were redefined. Thus, on November 8, 1917, they adopted the «Land Decree», according to which private land ownership was abolished and land of landowners and landlords was confiscated without redemption. With the adoption of the «Basic Law on Land Socialization» (dated 09.02.1918) and the «Decree on Land Socialization» (dated 19.02.1918) and their ratification at the Second Ukrainian Congress of Soviets (06.03.1918) all differential land rent of the 1st type was subject to seizure for the benefit of society (Art. 17). Crises in the countryside have led to economic policy reform and the transition to the «new economic policy». The «Land Code of the Ukrainian Socialist Soviet Republic» (dated 29.11.1922) declared the right to lease land for employment, thereby increasing budget revenues. However, in 1924–1926 the idea emerged that rent contributes to the formation of a class of kulaks, it is a capitalist form of business and should therefore be eliminated as a decline. Legally, this was framed by a decree of the Central Committee of the Russian Communist Party (Bolsheviks) on December 30, 1926. Also, during the period of the new economic policy, state purchase

prices were introduced to remove differential rental income, which were often lower than the cost of production.

The tax reform of 1930—1931 replaced the direct instruments of rent with indirect ones. Thus, according to the decree of the Central Executive Committee and the Council of People's Commissars of the USSR «On Tax Reform» (dated 02.09.1930), 56 different taxes and payments were abolished, introducing only five of them: turnover tax, income tax, industrial tax, personal income tax and a single state duty. It also provided full deduction of state-owned enterprises' profits into the budget. Since 1931, part of the rent tax revenue has been transferred to local budgets. Due to the consolidation of national ownership of land and natural resources, their use was considered free, and therefore all additional income belonged to the state. In addition, for a long time, there was an idea that there was no absolute rent under socialism. Purchasing prices for products were planned up to the USSR collapse; after the economic reform of 1965, they considered «normal» profitability, but did not stimulate enterprises to innovate. The socialization of rental income in the commodities was carried out by means of zonal differentiation of wholesale and purchase prices, applying to them different correction coefficients.

According to S. Ivanovskiy, the share of rent in turnover tax was 75—80 %, and in deductions from profit was 60—65 % [4, p. 88]. Statistics show that during 1970—1990 the state budget of Ukraine for more than 50 % (and in certain years – more than 75 %) was formed at the expense of turnover tax and income taxes (*Tabl. 1*).

Table 1

Revenue structure of the state budget of Ukraine based on major types
of rent taxes and payments in 1970—1990, %

Type of income	Years				
	1970	1980	1985	1989	1990
Turnover tax	18.6	32.7	38.3	31.3	28.1
Payments of state-owned enterprises and organizations for profit, total	<u>47.7</u>	<u>36.8</u>	<u>35.8</u>	<u>24.8</u>	<u>24.2</u>
	100.0	100.0	100.0	100.0	100.0
including:					
- contribution of free balance of profit	47.6	62.3	51.6	3.9	n/p
- fixed (rent) payments	1.1	0.4	0.1	n/p	n/p
- deductions from profits and other payments	31.7	13.0	24.4	69.1	74.8
Collective Farm Income Tax	1.4	0.7	0.9	0.9	1.1
Agricultural tax on population	0.7	0.3	0.2	0.1	0.1
Other taxes and payments	31.6	29.5	24.8	43.1	46.5
<i>Estimated amount of rental income in taxes and payments:</i>					
- to the total budget revenue, %	42.6-45.9	46.6-50.1	50.2-53.9	38.4-41.2	35.6-38.2
- to produced national income, %	10.5-11.4	14.8-15.9	17.0-18.3	14.2-15.2	13.6-14.6

Legend. N/p means tax was not paid.

Source: authors calculated according to the Central Statistical Office of the Ukrainian SSR data.

Taking into account S. Ivanovskiy's estimation of rent in these payments, its gross socialization was up to 50 % of the budget revenue and up to 17 % of the national income of Ukraine. The major part of the rent withdrawn, of course, came from agriculture and forestry. Thus, according to the State Budget of the Ukrainian SSR for 1990, revenues from turnover tax and payments on agricultural and forestry profits should be 7.5 and 1.1 billion rubbles, respectively, or 60 % and 10 % of the total amount of these payments, providing about 19 % of all budget revenues. Therefore, the total rent component in taxes is 6.3-6.7 billion rubbles, or about 39 % of total public rent for the year. According to the data of the sectoral balance in agriculture and forestry, in 1990, 10.8 billion roubles of additional product was created with a rate of return 38.4 % (the actual level of profitability of collective and state farms was 39.5 % and 35.7 % respectively). By presenting an additional product as the sum of entrepreneurial profit and rent, we get a ratio of 1.0:1.6. On withdrawing the rent from the additional product, the rate of return will be 14.6—16.0 %, which generally corresponds to the ratio of sectoral equalization of 15 %.

Similar calculations for 1950—1985 conditions show that the share of withdrawn rent in the

agrarian sector of the economy in the post-war years provided basic needs for financing industrial construction, and, furthermore, it guaranteed the social component of the state budget expenditures. Economic mechanisms of rental income socialization in general contributed to the development of integration relations, including complex formation in the economy.

The awareness and theoretical validity of the need to withdraw rent and quasi-income for the benefit of society in developed countries is fully shown in an open letter to the President of the USSR signed in 1991 by 30 leading economists, four of whom are now (three at the time of signing) pre-eminent laureates of State Bank for Economic Sciences in Memory of Alfred Nobel (W. Vickrey (1996), F. Modigliani, R. Solow, J. Tobin). They argued that it was extremely important to preserve land rent as a source of state revenue, while providing an effective tax system. From the social point of view, socializing of the natural rent guarantees the right of ownership for every citizen on equal part of the natural resources, enables the government to finance social programs, including the provision of housing and utilities, without damaging the efficient allocation of resources and without reducing the incentives for work and capital accumulation; the future rent should belong to the future generations, not the present [5, p. 57—59]. In addition, scientists have warned against excessive liberal privatization and market circulation of land, so it will destabilize society and the economy, cause disintegration, monopolization of nature management, etc.

After proclaiming the independence of Ukraine, large-scale economic transformations and reforms of all economic mechanism elements began; they were accompanied by the primary accumulation of capital, shadowing the economy, increasing the scale of rent-seeking behaviour, etc. It is clear that the scale of rent effects in the economy are deliberately concealed, because they are the basis of elite enrichment, which lobbies for their interests in politics and public administration.

Currently, in Ukraine, the role of rent fiscal instruments is played by indirect taxes and payments, as well as direct rent payments: land tax, group 4 single tax, rent for the use of mineral resources; rent for the use of subsoil for purposes other than mining; rent for the use of the radio frequency resource of Ukraine; rent for special use of water; rent for special use of forest resources; rent payment for transportation of oil and oil products by main oil pipelines, transit transportation of ammonia by pipelines through the territory of Ukraine, excise and environmental taxes, etc.

Using the Ministry of Finance of Ukraine and the State Treasury Service of Ukraine data on the amount of tax revenues to the consolidated budget of Ukraine for 1995—2017, we grouped them so as to estimate the absolute rental income (*Tabl. 2*).

Table 2

Volume and structure of absolute rental income of consolidated budget of Ukraine in 1995—2017

Indicator	Years						
	1995–1999	2000–2004	2005–2009	2010–2014	2015	2016	2017
Absolute rent, USD million	7139.8	11141.3	32995.0	49190.2	7554.0	6998.9	7792.2
Including:							
– natural rent, %	44.3	22.2	18.9	28.0	28.3	30.8	29.0
in particular land rent, %	29.8	15.9	13.3	13.8	10.2	15.0	14.8
– trade rent, %	41.1	61.3	59.4	57.2	67.3	68.3	70.4
– transport rent, %	14.6	16.5	21.7	14.8	4.4	0.9	0.6
Share of absolute rent, %							
– in consolidated budget revenues	10.9	19.6	18.4	20.6	25.3	22.8	20.4
– in the GDP of Ukraine	3.5	4.7	5.0	6.0	8.3	7.5	6.9

Notes. In 2015—2017 data calculated without taking into account the temporarily occupied territory and the area of anti-terrorist operation. The conversion into US dollars was made at the average annual rate of the National Bank of Ukraine.

Source: authors calculated according to the Ministry of Finance of Ukraine, the State Treasury Service of Ukraine and the State Statistics Service of Ukraine data.

It should be outlined that the estimates of the rent component of the consolidated budget of Ukraine are not accurate in terms of economic content of the source fiscal instruments, but the given data show that over time the national economy has become more rent-oriented. The fluctuations in the structure of absolute rent are caused by changes in the budget classification, reform of the tax system and its administration, etc. The institutionalization of the land tax and parts of rent payments in 2015 led to their fragmentation and, as a result, to a decrease in socialization. The decrease in the share of rental income in 2016—2017 was primarily due to the almost complete disappearance of the rent for transit transportation of natural gas pipelines through the territory of Ukraine, which was caused by the reorientation of the gas transportation system to the European vector of development.

The tax assessment of the rent makes it possible to more or less reliably determine its withdrawn absolute part, but it does not give an answer about the rent component of the gross value added. To take it into account, World Bank experts have developed a methodology for calculating an amount of rent in the framework of «The Welfare of Nations» project, based on J. Hartwick's rule: withdrawn rent regardless time [6, p. 49]. In other words, real investment (RI) is equal to the difference between gross investment (GI), amortization (A) and depletion of resources (DR). Presenting the first part of the difference as net investment (NI), we have equality [6, p. 51]: $NI = GI - A \equiv RI + DR$, where $DR = RI - NI$. Having data on investments and gross consumption of fixed capital, we can estimate the natural resource rent component of national wealth, i.e. GDP (Fig.).

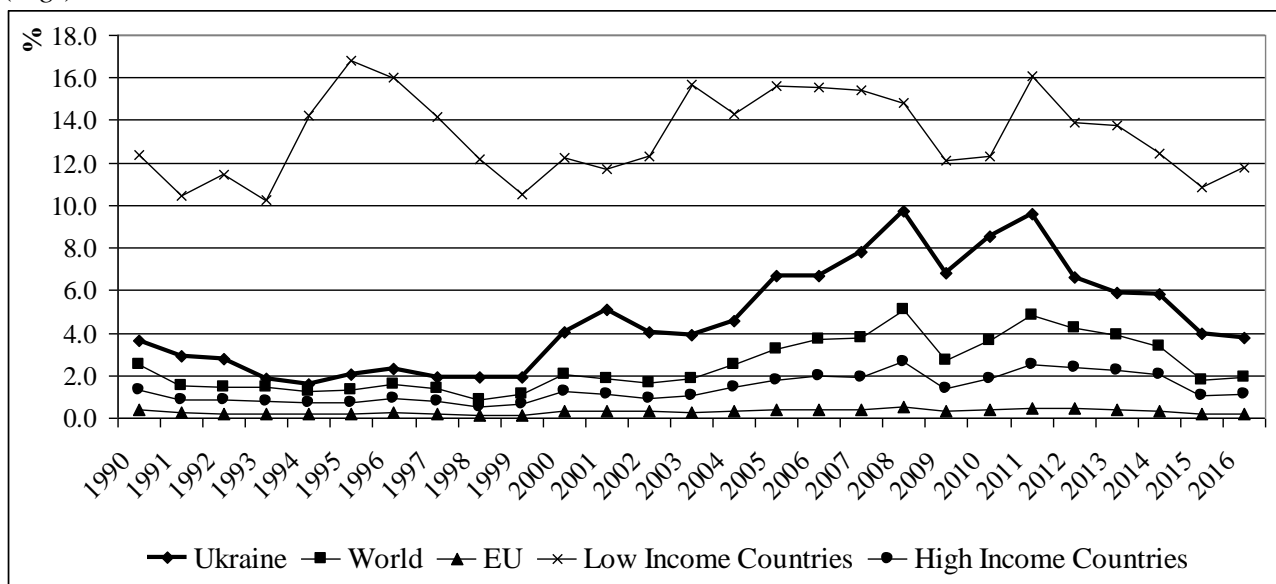


Fig. The share of natural resource rent in the gross domestic product of certain countries of the world
Source: authors calculated according to World Bank data.

The above data indicate three main trends. Firstly, the change in the share of natural resource rent in the GDP of Ukraine is broadly in line with the global trend. Secondly, the rent saturation of Ukraine's GDP exceeds the world average, designating the national economy as a commodity one, and more than nineteen-fold gap between EU member states indicates the developmental, transitive nature of the economy, its direct dependence on developed countries. Thirdly, the dynamics of annual indices of physical volume of GDP of Ukraine coincides with the dynamics of its rent withdrawn, which shows the direct dependency of goods production and rent, thus defining the economic system as extensive and deindustrialized. In addition, the share of mineral and gas rent in natural resource rent in Ukraine increased more than 1.5 times in 2017, compared to 1990. Therefore, amid non-renewable natural resources depletion, Ukraine's economy is losing its potential and without radical transformations, changes in technological structure and development of vertical integration, the crisis will only deepen.

At the same time, significant discrepancies between the rent component of gross domestic

product and the level of socialization of rent revenues are a consequence of destructive rent-seeking behaviour at the sectoral level. In particular, according to B. Danylyshyn, about 80 % of annual financial flows that are formed as a result of the use of Ukraine's natural resource potential are not controlled by the state and are not budgeted [7, p. 5]. Indirect estimates of the magnitude of this phenomenon can also be obtained by analysing the structure of gross value added, the difference in profitability levels of the raw materials, processing and service industries, etc. Thus, in the structure of total gross value added of Ukraine in 2017, 12.1 % was in agriculture, forestry and fisheries, but the share of the agrarian sector in the structure of gross profit (mixed income) was only 18.8 %, and in net profit it was 23.2 %. Such a significant difference in the account of production and income generation in the system of national accounts is due to the non-productive, lucrative nature of financial results, which is not socialized now. In addition, all integrated economic entities in the agrarian sector have rent orientation, accounting for up to 80 % of rent effects [8].

With private ownership of most resources of the agrarian sector, problems of rent withdrawal are more complicated. But we are convinced that the object of taxation should be only finished products, not raw materials. The system of taxation of agricultural producers can be reduced to fixed rent payments and income tax. A well-known tax instrument for rent withdraw, as well as stimulating and regulating the development of integration relations, is turnover tax. In July 2013, the Ministry of Revenue and Duties of Ukraine drafted the Law of Ukraine «On Amendments to the Tax Code of Ukraine on Improving Value Added Tax», according to which they proposed to reduce the VAT rate to 9 % by introducing turnover tax at the level of 1-2 % of the VAT tax base. The implementation of this provision was expected to increase the budget revenues of Ukraine by more than 22 billion UAH. In addition, the turnover tax contributes to the shading of the economy, stops major flows of hidden capital outflows, is transparent from the point of view of accrual and creates a minimum of opportunities for evasion. However, the signing of the «Association Agreement between Ukraine and the European Union, the European Atomic Energy Community and their Member States» (Law of Ukraine, dated 16.09.2014 No. 1678-VII) prevented the implementation of this tax incentive because Ukraine is obliged to comply with the EU Council Directive «On the Common System of Value Added Tax» (although there is no direct prohibition on the introduction of turnover tax). At the same time, European countries have a number of other taxes that contribute to the direct or indirect rent withdrawal at a progressive rate [9], the study of which is an urgent need for domestic tax reform.

The rent socialized in such ways should be accumulated in special state accounts and be a national property. The structure of rent distribution under administrative reform is also subject to regulation, as V. Budziak and O. Budziak emphasize. Thus, in their opinion, the total amount of rent income should be distributed between the landowner, land user, the state and the united territorial community [10, p. 15]: from an economic point of view, everyone is equal (25 % each); from environmental one it's 15, 15, 50 and 20 %; from social one it's 20, 10, 35 and 35 % respectively.

Conclusions. The dialectical unity of rent and agricultural finance stems from the nature of the rent itself, its interrelation with economic activities and its place in the agricultural relations system as a whole. Thus, on the one hand, rent is a category of production; it participates in the processes of social reproduction, therefore, being included in the subsystem of technical and economic relations. On the other hand, rent is a category of exchange, has some value, and therefore it is closely linked to commodity-money relations as a subsystem of socio-economic relations. Thus, it is correct to refer political rent to financial instruments.

Effective and sustainable development of the agrarian sector should be based on a system of state strategies for guaranteeing food security and rural development for different terms. In addition, this process must be deliberately coordinated by state policy in accordance with national sectoral development priorities. One of the most effective mechanisms for financial regulation of the development of the agrarian sector is rent policy, and the tool is rent as a special kind of over-income from implementing of the right and using the limited number of different quality resources.

The analysis of rent payments in Ukraine has shown that the national economy is still too

rent-oriented compared to developed countries. Therefore, amid non-renewable natural resources depletion, the economy of Ukraine continues to lose its potential and without drastic transformations, changes in technological structure and development of vertical integration, the crisis will only deepen. At the same time, due to inconsistency of reforms, less than two-thirds of the generated rent is withdrawn and socialized, resulting in significant losses of the state budget revenues and national wealth as a whole. Simultaneously, the remaining rent is appropriated in the shadow sector and directed to offshore areas. One of the effective mechanisms for its withdraw is the turnover tax and the reorientation of fiscal policy on rent, which is an initiative in Ukraine. The implementation of the proposed measures will help transform rent into an effective instrument for financial regulation of development not only of the agrarian sector, but of the entire national economy, providing additional resource for the needs of local self-government and rural communities, thus serving the return of this income to those who have a constitutional right to it.

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