# Finance

PUBLIC FINANCE
AND MACROECONOMICS

INVESTMENT
AND CAPITAL MARKET

CORPORATE FINANCE
AND CAPITAL BUDGETING

BANKING
AND CREDIT RISK MANAGEMENT

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VELIKO TARNOVO
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# TAXATION AND SOCIALLY-LEGAL GROUNDS OF STATE

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Formation of the Ukrainian tax system during the period of constructing a new – socially orientated economy – is accompanied by the study and use of accumulated world experience of the financial activity of the country. The experience of social and market economy of the leading western countries, checked by time and practice, might become good example for Ukraine.

One of the most important thing Ukraine should learn during transition to market economy is how to carry on the budget and tax policy distinctly. Besides that, this policy should be certainly based on the definite ways of the financial theory. Fiscal science has developed different theoretical and economic groundings of fiscal choice for specific economic conditions of national economy.

The world financial science distinguishes two approaches to theoretical and organizational grounding of the financial choice problem.

The first approach examines the necessity of taxes and tax payments. In this concept, taxes, as the value of social wealth, have two functions simultaneously – purpose and compulsory. This direction of the financial thought is based on the thesis suggested by E. Sax – obedience and compulsion are the necessary elements of tax theory (1). Theoretically the compulsory character of obligatory payment to the state in exchange for social wealth in financial literature is called the Pigu's tax. To regulate taxes according to Pigu's theory is a very effective and relatively simple way of GDP's centralization in the hands of the state. The construction of taxation is based on the fact, that any tax, besides of those which have purely fiscal character, may have still other social and economic effects external for the fisc. By carrying out the process of taxation subjectively the state may regulate economic and social processes in the necessary way, without taking into account the views and wishes of tax-payers.

In contrast to understanding a tax as a compulsion laid on obedient tax-payers, the second approach of the fiscal science considers a tax as a social duty.

A tax, paid on the basis of conscious and individual choice and personal estimation of the state activity character, made by a tax-payer, got the name "the Klark's tax" by the name of the American economist Edward Klark (2).

There is a definite change in understanding a tax – from a tax as the main obligatory payment to the state, to a tax as a comprehended necessity. The Klark's tax has theoretically shown the problem of fiscal choice as economic theory of democracy in which there is consent between tax-payers in paying out by taxes the choices they have made concerning their state order. He theoretically explains the dependence of tax-payers' wealth on their behavior.

The correlation between the social choice and taxation can function in full extent only under the conditions of conscious and mass participation of tax-payers in the activity of state institutions. According to Klark's thoughts democracy is not only freedom of thought and legal activity, but also a heavy fiscal duty i.e. consciously to pay for freedom (3).

According to Klark, pure taxation is possible only under the conditions of absolutely perfect public society, which in real social practice, is blocked by imperfect mercenary trade and barter relations of a man as a biological being. That is why democratic society, which has made a choice towards socially oriented market economy, needs to find a balance between obligation and self-taxation, between burdens and profits of taxation.

During the transition period to market economy taxes should be used not only as a source of obtaining budgetary profits, but as an important mean of financial regulation of economy. Under such conditions in socially oriented state the theoretical, methodological and pragmatic foundations of tax policy and tax system formation become very actual.

Taxes in one's hands may serve as a mean and tool of stabilization and economic flourishing inside a state and in the hands of others may serve as a mean of instability and economic self-ruining. That is why, thinking about the formation of the state monetary funds on the account of taxes and tax payments, state institutions should carry out the policy, which will join the interests of the state, tax-payers and ordinary citizens.

The neoclassical doctrine of taxation, and its main direction – neonservatism, have revived step by step in the fiscal science of the 70-s – 80-s. This paradigm has revived under the influence of strengthened contradictions of market economic conditions, which were based on the Keynes's policy of state intrusion as the policy of "fine tuning". Besides the neoclassical theory, private property and market economy must not be influenced by state intrusion. The concept of "offering resources" as the basis of neoconservatism envisages the fact, that savings cause the growth of capital investments and at the same time stipulate economic growth. Moreover, such economic growth is possible only under the condition of creating the long-term strategy of intrusion of the state into the market and this strategy would provide stable financial policy.

Neoclassicists orient their views on providing resources and sufficiency of savings. Hence there is a need for considerable tax level reduction and stimulation of accumulation processes. Neoclassicists thought that the taxes paid by business bodies lead to the increase in administrative expenses and at the same time to it leads to inflation and reduction of labor productivity and real wealth of citizens. The main argument of the neoclassical school concerning tax sphere is income taxes which undermine the possibility of accumulating savings and investments, i.e. they negatively influence economic growth (4). The following economists as G. Growth,

H. Luts, D. Middleton, L. Emery criticized high taxes in the USA and Great Britain. The American economists M. Wadenbaum, A. Burns, Gwalich, A. Laffer and others, substantiating the restrictions of state interference and reduction of tax level in their scientific works, demanded reduction of state expenditures.

British economists K. Jozef and A. Seladon have proved the necessity of reducing the "tax burden" laid on business activity and simultaneous raise of market and private initiative significance.

Tax reforms of the 80-s in the USA were conducted according to neoclassical paradigm. Neoclassical theories have also become the basis of tax policies in some European and Asian countries and especially in Great Britain, Italy and Japan.

Social and legal democratic state is the system of welfarism, which envisages social and financial protection of people who are not able to provide themselves with proper living standards. The ideology and practice of a state with general level of wealth have become popular among some countries of Western Europe after World War II. It found its reflection in some socially-oriented market economies in Germany, France, Sweden, and some other European countries. Tax systems in these countries are based on a new theoretical trend, which has integrated in itself mutual penetration of neoclassical and Keynesian ideas of state formation. The contradictions in views of the Keynesians and neoclassicists result from the differences in their general theories. Keynesian tax theory was developing under the condition of "demand" and provision of the state services financing. Taxes were regarded as "flexibility mechanisms", which had democratic coloring. As they provided distribution of tax burden in accordance with profits and supported employment via reaching "effective demand". The concept of "effective demand" helped to analyze macroindices, that is domestic product, accumulation, savings and consumption funds, i.e. to investigate reproduction process in general. It gave the possibility to "include" the movement of taxes into the movement of macroindices. Keynes's ideas are based on the conclusion, that tax influxes do not only depend on changes in tax rates, but also on the fluctuation in taxation rate size.

The analysis of taxes in the context of formation of market economy of a country, needs finding out the optimal level of taxes and their influence on the balance in private sector. J. Keynes had developed and later his followers adapted in practice the principally new theory of taxes which was aimed at regulating economy of a country under market economy conditions with simultaneous joining of private business initiative with social protection of poorly-maintained layers of the population.

In the 90-s the contradictions among Keynesian methods of state intrusion into market have arisen. The American economists, and F. A. von Haiek in particular, blamed J. Keynes in developing instability and inflation, calling him the "bearer of socialist ideas" (1).

But life has proved that contradictions between Keynesian and neoclassical theories are not so solvable.

Though, as a matter of fact, economic doctrine of conservatives and economic doctrine of the Keynesians are different ways of regulating market economy, the contradictions between them are not so antagonized. They do not exclude the possibilities of synthesis and development of new theoretical and economic grounds of state formation which use the elements of different concepts. It was proved by German economists F. Neimark, P. Loese, G. Schmalders and by French economists K. Gambis, J. leonard, R. Muznek and some others, who laid the foundations of new economic thoughts for substantiating the final choice in socially-orientated market economy. The modern taxation system of many European countries, Germany, France and Sweden in particular, are based on their ideas.

Countries with socially-orientated market economies pay great attention to the efficiency of using fiscal receipts. On macro-level the sums of the paid taxes for all tax-payers should necessarily correspond to the sums of social wealth financed by the state and transfer payments, i.e. tax payments should correspond to the boundary efficiency of a share of GDP's value, which is centrally withdrawn from tax-payers and is redistributed via budget of the state. Moreover this redistribution should be carried out under the condition of the least social sacrifice for each tax-payer and this sacrifice is not reinforced by the obtained part of social wealth.

Social wealth in the countries with socially-oriented market economies is measured by taxes. And it is necessary to investigate the efficiency of tax correlation of the state and its bodies via coefficient of correlation between fiscal receipts and social wealth, financed by the state and transfer payments:

$$KC = \frac{SWTP}{FR}$$

where Kc is correlation coefficient; SWTP is social wealth and transfer payments; FR is fiscal receipts.

In general, social and market economy envisages the availability of high indicators of GDP, centralized
in the hands of the state and also high level of taxation. But the definite tax-payer is interested not only in the level of taxation, but also in the total sum of social wealth. Theoretically the total sum of social wealth is expressed by the efficiency of the paid taxes and tax payments.

If the correlation coefficient between SW and TP, and the sums of paid taxes and tax payments does not fall lower than 80 per cent, we can say that high level of taxation justifies itself, and limited usefulness of obligatory payments withdrawn by the state is not violated. For example, the level of taxation in Sweden reaches 57 per cent of GDP, but Kc correlation coefficient is about 86 per cent. That is why high level of taxation does not influence greatly the rate of economic development and the level of social welfare of citizens, because taxes are paid with maximum efficiency – 86 per cent, and with minimum social sacrifice – 14 per cent.

In Ukraine Kc correlation coefficient is not higher than 20 per cent. It testifies the fact, that the efficiency of the use of fiscal receipts in Ukraine theoretical and practical points of view. That is why in our opinion during reformation and reorganization process of the Ukrainian tax system and its transformation into socially-oriented market economy, it is reasonable to pay more attention not only to the level of taxation, but to the efficiency of the use of fiscal receipts under the condition of boundary efficiency of such payments for the definite tax-players.

Researching the perspectives of the use of world experience in the sphere of the activity of the state, we can make conclusions that the experience of social and market economy proves that improvement of tax system in Ukraine should be carried out in general in the directions of its liberalization, decentralization, decrease of the GDP's total share, redistribution via state budget, creation of the optimal and effective taxation mechanism, improvement of the control over the correctness and timeliness of tax payments according to their budget use for social and economic needs of the country and also improvement of the mechanism of law creation concerning taxation. Besides, it is very important that the taxes should really use fiscal and distribution functions in optimal correlation.

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