THEORETICAL ASPECTS OF BUILDING UP THE TAX POLICY OF WELFARE STATE

© 2010 O.V. Kalinina*

Keywords: tax policy, the welfare state, theoretical aspect, social orientation.

In article reveals the aspects of socially focused taxation in the situation of market economy recovery. The essence of welfare state tax policy is investigated. Various types of tax policy are studied; characteristic features of socially focused tax policy are displayed.

The coordination of fiscal strategy with various aspects of social policy is one of the major problems of governmental regulations. Tax and budgetary constituent of governmental financial policy should not be focused on fiscal purposes, as solving social and economical objectives that ensure the economic growth and social orientation of economy.

Scales and forms of governmental participation in ensuring the social development depend on the business model. In world practice there are two major types of business from the point of view of governmental intervention into social and economical processes, i.e. the Liberal Model and the Socially Oriented one.

The Liberal Model marginally regulates social and economical processes, not inclined to intervene into entrepreneurship regulation and is focused on the economic growth and industrialization of the country. The state takes a minimal part in solving social problems, observing the principle of *supporting only the poorest population groups instead of everybody*. Major objectives are an increase in production and incomes of the population at the expense of the private initiative of the citizens themselves, sustainable national currency and appearance and expanse into new markets. The Liberal Business Model is typical for such countries, as the USA, Canada, France, etc.

As for *Socially Oriented* Model, one of the main targets is to ensure the social protection and justice for its people. Within this model, governmental regulations are higher than within the Liberal Model. The public sector is considerable, while entrepreneurship is the subject of regulation. Such type of model is typical for those highly developed countries that have already achieved the limits of traditional economic growth. Therefore, the economic development is focused on restructuring the economy; in particular, liquidation of low competitive manufacturers and acquisition of priority positions at the markets of high-technology products. Socially Oriented Business Model has been widely spread in Scandinavian countries and Western Europe.

The choice between one or another economic business model determines the type of tax policy; in world tax practice, there are two main types of the policy:

The first type of tax policy complies with the Liberal and Market Business Model and assumes the low taxation level when the state does not only take into account its own fiscal interests, but also the ones of taxpayers, although, social guarantees are also weak due to the decrease in budget revenues. Within this policy, the share of bites of taxes is strictly limited along with a relevant limitation of social benefits and guarantees. In its turn, tax benefits for investors into the manufacturing sector are encouraged. In other words, this policy lets the government impose a minimum of taxes without spending huge budget funds on social support of population.

In time of their post war reconstruction, Germany and Japan followed this model of tax policy. So far, the countries of Southern and Eastern Asia, Brazil, Mexico, India, China and others have followed this model.

The second type of tax policy characterizes the socially-oriented model of economic development and assumes the essential taxation level both for corporations and individuals. This type of tax policy assumes high taxation rates, a wide range of taxpayers and insignificant benefits along with a wide complex of social guarantees to the citizens.

Depending on the weight of tax load set for different taxation subjects, one may identify the following *kinds of the governmental tax policy*:

* Olga V. Kalinina, lecturer of St Petersburg State Polytechnical University. E-mail: olgakalinina@bk.ru.

The first type of business oriented tax policy when "the tax load for legal entities is less than that for individuals" assumes a shift of tax load from legal entities to individuals. The object of such policy is the development of business and market environment in the country. Making favourable conditions for enterprises' development through giving them tax benefits and decreasing their tax load, we compensate decreasing budget revenues at the expense of the increasing tax load for individuals. Such policy leads to the increase in social tension and further decreases in incomes in the society on condition that there is a low mean value for the standard of living.

The second type of socially oriented policy when "the tax load of legal entities is more than that of the individuals" assumes the shift of the tax load from individuals to legal entities. The target of such policy is the increase in real incomes of the population through the decrease in the share of bites of tax that will lead to the increasing purchasing ability. Although, for businesses such tax policy will result in the decrease in the share of free cash flow to develop the business and negatively influence the aggregate market offer.

The third type of tax policy when "the tax load of legal entities is equal to that of the individuals" is the trade-off alternative that assumes equal distribution of tax load between individuals and legal persons. Thus, taxation is more loyal per each separate category than when the load is unilateral.

Considering these types of tax policy, it should be noted that the wage supplements, defined with budgetary expenditures, wouldn't depend on the number of income sources (individuals and legal entities), as it is focused on those citizens, who do not pay high taxes.

M.M. Sokolov believes that across the developed countries total taxes collected from individuals at the beginning of the 20th century 5-6 times exceeded the revenues from taxes paid by legal entities. This fact has significantly changed the situation in taxation in these countries. Across the legal entities, the fiscal function has lost its dominating role replaced by the regulating and stimulating functions. Across the individuals, the fiscal function keeps dominating, though in countries' dynamics the decrease in the tax load and the increase in its social focus are present.

Implementing the state's social obligations against its population will be one of the outcomes of the efficient functioning of the tax system.

One may refer to English economist W.G. Beveridge, who thought that for the tax policy of the welfare state the following characteristics are obligatory, i.e. a drive to the general welfare, equality and liberty, increasing living standards of poor people, the development of social security system, social insurance, employment, salaries and prices control, guarantied national average income, and available education and public health.

As P.V. Mikeladze, economist from the first part of the 20th century, used to say, socially oriented taxation ensures efficient redistribution of GDP and implementation of governmental financial and economic reproduction policy in social domain. The main task of such tax policy is to coordinate and meet individual and collective needs.

According to American economist R.L. Klein, in the welfare state, an amount of the redistributed share of the national income is predominantly determined by political not economic factors.

A.V. Bobrova believes that the *socially-oriented tax system* is a complex of socialized taxes (charges) and mechanism for interaction between equal participants of the tax relationship that guarantee the social development and the safety of both society and each citizen based on the regulating function of taxes.

According to A.V. Aronov, the socially oriented taxation is intended to contribute into meeting both material and non material needs of people, encouraging human's capital development, socially useful labour, and the people's desire to increase their prosperity in a legal way. This includes targeted social protection of population, a balanced range of the state's social obligations and a balance between social obligations of the state and the tax capacity.

V.V. Simonov points out that the social focus of tax policy should be implemented in the context of governmental social policy in general focused firstly at the development of the socially oriented entrepreneurship, assuring that the economy moves from the entrepreneur's interest to the up-to-down establishment of the market infrastructure to meet these interests.

It should be finally said that unlike the socially oriented tax policy, the main goal of the fiscal policy is a sustainable and full inflow of taxes to the country budget.

The accomplished analysis has enabled to identify *the following characteristics* of the tax policy of the welfare state. The socially oriented tax policy can be described by:

♦ set objectives and targets, usual in the welfare state, in compliance with the development of the social domain as a priority;

♦ higher tax load both for the population and businesses;

♦ higher gross incomes per capita;

♦ better developed social guarantees and protection measures;

♦ available *social tools* in taxation, i.e. social taxes, benefits, various types of social rates and special tax regulations;

♦ available progressive taxation systems.

Aronov A.V. Conceptual of a basis of a tax policy of the social state. M., 2008.

Aronov A.V. Perfection of a tax policy as factor of resource maintenance of social obligations in the Russian Federation. M., 2008.

Bobrova A.V. Theoretical and metrological basis of formation of socially focused tax system of Russia. Ekaterinburg, 2007.

The Big Soviet encyclopedia: 30 v. M., 2003.

Mikeladze P.V. Notes of the financial organization allied and federative states. L., 1926.

The project the LINK // Economy and mathematical methods. 1977. V. 13 (May - June).

The Budget and taxes in state economic policy / Simonov V.V. and others. M., 2008.

Sokolov M.M. Modern tendencies in the politician of the taxation physical and legal objects: interrelation of social and economic aspects //All about taxes. 2009. № 4.

Received for publication on 18.10.2010