Montenegrin Journal of Economics

Vol. 13, No. 2 (2017), 121-127

Country's Welfare as an Efficiency Factor in Fiscal Policy Promoting Economig Growth

USHAKOV DENIS[1], NATALIA BANDURINA[2], and SERGEY SHKODINSKY[3]

[1] Professor, International College Suan Sunandha Rajabhat University, Bangkok, Thailand, e-mail: fintaliano@yandex.ru.
[2] Professor, State Research Institute of System Analysis of the Accounts Chamber of the Russian Federation, Moscow, Russia e-mail: abander@mail.ru
[3] Senior Lecturer, State Research Institute of System Analysis of the Accounts Chamber of the Russian Federation, Moscow, Russia

ARTICLE INFO

Received December 01, 2016
Revised from February 15, 2016
Accepted April, 20 2017
Available online June 15, 2017

JEL classification:

H21, H23, H53.

DOI: 10.14254/1800-5845/2017.13-2.7

Keywords:

taxation regime,
economic stimulation,
external trade,
tax rate,
taxation comfort.

ABSTRACT

The main problem of this study is an assessment of the current role of national tax regime in overcoming an injustice of national profit distribution, as well as in economic development stimulating in poor and wealthy countries. In this article the authors study the correlation between the dynamics of taxation regimes' components and the macroeconomic indices of the countries' worldwide so that to classify the countries into groups depending on the level of their welfare. Therefore, the article presents the authors' conclusions concerning the efficiency of fiscal instruments for economic growth stimulation and external trade attractiveness increase as applied to the majority of contemporary states. Research proved a taxation effect in countries' macro-economic growth and external attractiveness stimulating, as well as this effect dependence on the level of countries material well-being and infrastructural conditions

INTRODUCTION

The role of taxation regime in any country is to overcome the market falls and fight unfair and unequal income distribution within the society, and also, to stimulate further economic development (this concerns, first of all, developing countries). Thus, the choice of a taxation regime is an important issue today, for both developed and developing countries, and also for researchers.

Economists have long been interested in the relationship between income distribution and economic growth. Two major approaches dominate in literature on this topic. The first one is first of all associated with globally famous Simon Kuznets and comes from the assertion that the degree of inequality varies systematically with the level of income per capita, initially increasing as incomes rise and then, at some point, decreasing with further increase in income.

The second approach is associated with the name of Arthur Okun (1970) and his idea that there is a great trade-off between equality and efficiency and hence policy interventions should be aimed specifically at reducing inequality.

Taken together, these two visions have been further used by Amy Ickowitz (2001) to argue against public policies intended to create a less unequal society, since the Kuznets proposition indicates that in the long run policy interventions are unnecessary, while the Okun's proposition is that in the short run they are harmful.

Other experts on fiscal policies, Lawrence W. Kenny and Stanley L. Winer (2006) have carried out a research on 100 countries with both democratic and non-democratic regimes so that to study the role and the efficiency of taxation systems and regimes used in these countries. They assessed these regimes from the standpoint of scale effect, taxation base effects and overall efficiency of the related administrative costs. And thus, they managed to present a range of advantages of democracy for countries' fiscal strategies' implementation under the conditions of globalization. In the same vein, Philipp Harms and Stefan Zink (2003) came to the conclusion that most democracies are characterized by moderate taxation of wealth.

Following the same topic of taxes' efficiency for the public strategy of poverty eradication, Akihiko Kaneko and Daisuke Matsuzaki (2009) tested empirically the stimulating (for overall economic growth) effect from indirect taxes (namely, sales tax) and came to the conclusion about the necessity of combining fiscal and monetary instruments in economic growth stimulation. And two years prior to that, Günther Rehme (2007) proved that public finance and public financial policy has a significant role in welfare redistribution, thus contributing to potential growth and better welfare for all under the conditions of a capitalistic society.

Separately, we need to mention here the existence of socio-psychological direction in the research concerning welfare distribution and state tax policy/strategy. For example, P. Doerrenberg and A. Peichl (2013) came to the conclusion that individual morale related to taxes is higher, while the more progressive the tax schedule is. And also, that positive impact of tax progressivity on tax morale declines with income. This became the key result of their quite curious research, and at the same time this conclusion can be also treated as the fundamental principle of the progressive scale introduction in taxation and further modernization of the existing systems of fiscal administration.

Another potential methodology and vision for taxation regime modernization was suggested in the conclusions of Georg Tillmann (2010) concerning tax evading decisions of agents with different incomes. He also mentioned that governments may use different instruments to maximize the total tax receipts and to prevent the flight of capital from the country. In the same vein, Verena Kley (2011) was studying the role of tax instruments' use optimization for more fair benefits' redistribution between the citizens within one state.

Quite significant theoretical value also have more applied studies on the problems of material benefits distribution by means of various taxation levies on the case studies of the selected countries worldwide. For example, the research on the EU economies groupped them into three clusters (North, Central and South), depending on the practiced methods and strategic guidelines of tax regulation in the countries in question (Vogel, 2014). This division has made it possible to detect a range of regularities in the influence of a national taxation regime on welfare's dynamic development.

Back in 2007 Keuschnigg, C. and Dietz, M. (2007) proved that even in such a stable and well-to-do country as Switzerland tax regulation has an extremely high potential to stimulate further the economic growth, and thus, may guarantee this growth would be up to 4-5% a year, in the long term.

Obviously, the problem of economic growth stimulation and the role of efficient taxation system in it is first of all topical and meaningful for still developing countries, in which poverty and fair distribution of economic benefits are quite painful issues, requiring significant attention of the state. In this regard, several African authors think that modernization of national taxation system should be first of all aimed to increasing the external attractiveness of a country (study on Zambia and Zimbabwe by Raghbendra Jha (2008) or on levelling the life quality levels in different regions of the same country (or in urban and rural areas, like in Botswana research by Imogen Patience and Bonolo Mogotsi (2009).

In this context Latin American studies have their peculiarity. Authors of this region (e.g., Jean-Yves Duclos, Paul Makdissi, Abdelkrim Araar (2014) in Mexico, or Enlinson Mattos and Ricardo Politi (2014) in Brazil tend to emphasize the importance of indirect taxes (sales tax, VAT) as the primary instrument in regulation of fair distribution and in fighting social inequality, thus providing additional resource for long-term economic growth.

Also, we need to mention here a comparatively new direction in tax research – studying the problems of international fiscal administration and redistribution of welfare/benefits between the states. The interest to this problem can be explained by the failures of free economy globally. For example, Petr Janský (2015) in his rather original research suggests to introduce for further use the so-called Commitment to Development Index, which ranks rich countries according to their policies which affect poor countries. This index can be used in the process of international infrastructure formation for taxes administration and international financial flows regulation. The necessity to standardize and universalize the fiscal practices on a global scale has been considered by Nuno Trindade Magessi and Luis Antunes (2014). This necessity was explained by the authors from the standpoint of the urgent need for global and joint fight against shadow economies. Potential economic consequences of the transition from international competition in the field of taxation to cross-country cooperation was quite objectively assessed already back in 2009 by Stanislaw Soltysilski (2009). This author also outlined the potential new horizons and prospects of global tax administration system development and functioning.

With the due reference to all these conclusions, both purely theoretical and also empirical, concerning the stimulating role of taxation regimes for different countries worldwide, we decided to carry out our own research and started with classifying the countries into the groups, depending on the level of their welfare. In the research which will be presented below we attempt to evaluate the efficiency of taxation regimes in the countries worldwide. And we also attempt to determine the causes of these regimes' rather different results and their certain asynchrony which is clearly observed.

1. RESEARCH METHODOLOGY

Our research is based on studying the correlation between the indicators of tax reforms' dynamics and the macroeconomic development trends in contemporary states worldwide. This is part of our longer-term research on taxation regimes in their correlation with economic development dynamics, partially presented in (Ushakov, 2016).

We have used the statistical data on economic development by countries from the World Bank database, namely:

- On the dynamics of GDP and also GDP per capita;
- On the dynamics of exports' and imports' growth (in both relative and absolute terms) by countries worldwide.

Table 1. Countries' division by groups for further analysis (authors' proposition)

Group #	*Group title*	*GDP per capita*	*Number of countries in the group*
1	Rich	Over 40,000 $	18
2	Well-to-do	25,000-39,999 $	10
3	Average	15,000 – 24,999$	20
4	Underperforming	5,000 – 14,999 $	22
5	Poor	4,999 $	61
	Total:		*131*

In our further analysis of tax reforms' dynamics by these groups of countries we have used the following indicators from "Doing Business" rankings:

- International rank of a country's taxation system;
- Time needed for all tax formalities in a country;
- The number of tax reports per year by countries;
- The average tax rate (the synthetic indicators of all taxation rates, for both legal bodies and private individuals in a country).

Using these indicators, we have analyzes all 131 countries (see Table 1 above) operating this split into 5 groups of their welfare level. The time frame chosen for this study is 2009 to 2016.

2. RESEARCH RESULTS

Tax ranking is among the key determinants for economic development dynamics of any country, it is also able to influence significantly upon the external trade dynamics, in poor and average income countries especially. As shown in Table 2, in poor countries the average tax rate is usually much more influential than, for example, taxation comfort indicators, but still, the tax rate impact is less than the impact of the international ranking of a certain country's taxation system overall. While in case of average income countries the nearly equal stimulating effects on the local economy's development have such indicators as taxation comfort, the tax rate size and the country's rank in the taxation systems' global ranking.

Table 2. Taxation regime impact on macroeconomic indicators of development and external trade dynamics by country groups, 2009-2016[1]

Country groups	*Taxation regime indicators[2]*			
	Taxation ranking of the group	*Taxation comfort*		*Average tax rate*
		Duration of overall tax formalities	*Number of tax payments*	
Rich	82	61	60	80
Well-to-do	75	41	67	65
Average	97	80	100	99
Underperforming	61	49	84	77
Poor	100	77	89	96

[1] Correlation has been calculated by the authors
[2] 100 is the maximum

Table 3. Interdependence between taxation regime components and indicators of economic systems' development and trade dynamics by country groups, 2009-2015

Country groups	*Taxation regime indicators*			
	Taxation ranking	*Taxation comfort*		*Average tax rate*
		Duration of all tax formalities	*Number of tax payments*	
Rich				5
Well-to-do	1,2,3,5	5		3
Average	3,5,7	1,3,7	7	5,7
Underperforming				
Poor	1,3	7		1,3,7

1. GDP in relative terms
2. GDP growth, %
3. GDP per capita
4. GDP per capita growth, %
5. Export in absolute terms
6. Export growth, %
7. Import in absolute terms

We also need to mention here that in case of rich countries the ranking of a national taxation system and the tax rate size have the maximum impact on macroeconomic indicators of a country.

More detailed description of how specifically separate components of a taxation regime impact the macroeconomic indicators and external trade attractiveness is presented in Table 3.

As we can see in Table 3, the most powerful stimulating effect on economic growth overall and trade attractiveness in particular have the taxation regimes in poor, average income and well-to-do countries. On the other hand, it is also obvious that taxation regime has nearly minimal influence on the most important dynamics indicators, such as growth of export-import operations, GDP per capita growth. And in case of underperforming countries taxation has no stimulating effect as such.

CONCLUSION

The carried out research has managed to prove here that taxation indeed has certain stimulating effect on macroeconomic growth and countries' attractiveness for external trade. At the same time we can observe this effect tends to vary significantly, depending on a country's welfare level, its overall economic conditions and trade infrastructure in particular. The authors prove here that the stimulating effects from taxation ranking, components of taxation comfort and tax rates can be rather differentiated, thus, there is a necessity for a multivector approach to tax levers' application on the state level of economic stimulation. And the key requirements to this stimulating policy should be the following:

– In rich countries worldwide significant stimulating effects for national economies have global rankings of their taxation systems as well as the average tax rate in the country. This can be explained by the fact that traditionally rich states have by default rather high level of taxation comfort. In our previous research (Ushakov, 2016) we have already proved that once a country achieves a certain level of welfare – its taxation comfort nearly automatically gets also higher, for example, bureaucracy related to taxation procedures reduces and overall, public bodies perform their regulating functions in a more efficient way – thus, further increase of tax rates becomes simply inexpedient. At the same time, we need also to note that higher tax rates in the most developed countries in the world manifest their efficiency in stimulation of national economies and export-import operations in particular.

- For poor countries higher economic value have tax rates and also taxation system ranking (which is often predetermined by the size of taxes in the country), while taxation comfort factors usually get secondary importance. At the same time, curiously, taxation comfort has significant stimulation powers in underperforming countries and also in the countries with average income (in case of the latter – mostly because their economic growth is to a larger extent predetermined by rather liberalized taxation processes).

- In rich and average income countries the tax rate is able to onset the development of national exports, consequently, their discriminatory tax policy (which is in most cases preferential to actively exporting enterprises) would activate and widen the country's role and engagement in the world trade.

- Import is very much dependent upon the specifics of a particular national taxation system in poor countries and average income countries. This can be explained by the underdevelopment of internal proposition, actually. Therefore, in these countries regulation of tax rates and promoting taxation comfort would revive the growth of national consumption, however, this can actually turn to the disadvantage of national production (though longer-term favourable effect would be still possible due to internal competition development).

- In the three groups of countries we consider here (that is, the larger share of the world as such) taxation rank and taxation comfort indicators impact population welfare (measured through GDP per capita), however, at the same time not impacting the GDP dynamics (measured through GDP growth and GDP per capita growth).

Conclusions we have reached here for these five groups of countries can be further taken into account in the processes of national policies' modernization in part of tax instruments' implementation for economic growth intensification purposes.

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