The Evolution of Views on Instruments of Budget-Fiscal Regulation

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Abstract

The article is devoted to a generalization of modern theories of fiscal regulation. The aim of research is to substantiate the use of modern tools of fiscal regulation on the basis of theoretical analysis of scientific views on fiscal policy issues of the state. It is founded by the authors that efficiency and the impact of the fiscal regulation , on the one hand, is provided by the formation of financial resources in order to implement the functions of the state, on the other hand, it is provided by the creation terms of continuous search of reserves of efficiency of managing. In this article is analyzed the dynamics of public revenue and expenditure of the Group of Seven (Japan, Germany, France, Italy, Britain, USA, Canada) and Russia. The fiscal policy of the world leading economies is heterogeneous and subjected to many different factors in current circumstances. Therefore, the effects described in models cannot be universal. The article reveals the particularities of the transformation of the tools of fiscal regulation in terms of development of financial crisis phenomena. Crisis phenomena also break structures of many theories and laws. The article gives a conclusion about the need for empirical evidence of the influence of macroeconomic instruments on fiscal policy of the state at a given place and time. Article is executed within the state task of Southwest state university, a project code: 2090.

Keywords: *budget expenditures, budget revenues, fiscal policy, fiscal regulation of the financial system.*

1. Introduction

Fiscal policy is a system of financial relations between the state and society to concentrate and use financial resources effectively for the benefit of the society. The most important objectives of fiscal policy under modern conditions are to maintain macroeconomic stability, create conditions for the economic growth and to reduce inflation. The human capital development (protection of health, education), infrastructure expansion ensuring both the needs of the population and accelerated development of production backing of the judiciary, the solution of problems of poverty, pertain to top-priority directions of fiscal policy. The improvement of the real income of population including the income of employees of budget organizations will make it possible not only to solve social aims, but also to raise the consumer demand forming the condition of stability of the overall economic growth and the growth of budget revenues. The transition of the Russian Federation to the innovative socially oriented type of economic development involves using mechanisms of fiscal policy as an instrument to solve strategic economic and social problems. In this regard, appropriate use of the fiscal policy instruments in order to increase the efficiency of public expenditures and strengthen a stimulating effect of the tax system on economic development is of great importance.

2. Literature Review

There are various theories describing the effects that explain the use of fiscal instruments.

A representative of the classical school Adam Smith noted that reducing the tax burden from the state would benefit more than from imposing unbearable taxes.

According to the theory of Keynes, taxes are as “built-in mechanisms for flexibility” in the economic system. Being an integral part of the budget, this economic category affects the balance in the economy.

A special direction called a “supply-side economics” appeared in the 70-ies (A. Laffer, J. Gilder, M. Evans, M. Feldstein et al.). According to that direction, it is necessary to reduce taxes and provide benefits to corporations for economic improvement (Nureev, 2014).

Professor A. Laffer used a parabolic curve to describe a quantitative relationship between progressive taxation and income budget. He concluded that the tax cuts affect the economic interest of business entities.

E.V. Balatsky sustained Laffer’s theory in his works (Balatsky, 2000). There are two aspects of the analysis when assessing fiscal policy from the point of view of the state. They are evaluation of the effectiveness of fiscal policy affecting the production activity of the economic system and the fullness of the budget revenues. As a rule, these two assessments come into conflict, and fiscal policy, effective from the point of view of the second criterion, can be completely ineffective from the point of view of the first one. In addition, fiscal policy can have mixed results even within each of these criteria, i.e. there are inflection points. Economically Laffer's point of the first kind means the limit of the tax burden, where the production system does not go into the regime of recession. Laffer's point of the second kind shows the amount of the tax burden, beyond which an increase of tax revenues is impossible.

A German economist Adolf Wagner formulated a law in 1892. According to the law, the growth in gross domestic product (national income) is accompanied by the accelerated growth in public expenditures (Balatsky, 2010). The law is manifested in share growth of public expenditures in GDP, and therefore in the size of the public sector.

According to Robert Mandella’s studies, the use of instruments of fiscal policy can achieve internal and external balance in the international mobility of capital. In particular, R. Mandella developed a model of an open economy, which proved that the effect of monetary and fiscal policy depends on the assumptions made with respect to the exchange rates. Provided absolute mobility of the capital the model showed both inefficiency of monetary policy under the fixed exchange rates and inefficiency of fiscal policy under the flexible exchange rates. M. Flemming came to a similar conclusion (Mundell, 2015).

O. Blanchard recommends using of an indicator of the actual budget surplus as an indicator of macroeconomics, economic effect of fiscal policy. In addition, according to Blanchard's studies, structural indicators of the budget should not be the only means for the fiscal policy analysis (Platonov, 2012).

In conditions of fiscal policy of the country, the current economic realities that have a direct effect on the efficiency cannot be ignored. Formation of a competitive economy in any country is impossible without effective fiscal policy considering globalization as a modern process. Fiscal policy of leading economies in the world is heterogeneous. It depends on scale and structure of the existing tax system and on budgetary control and balance (Afanaseva, 2014).

A number of economists point out negative aspects of financial liberalization. For example, D. Rodrik, J.Bhagwati and J. Stiglitz believe that the free capital movement undermine the global financial stability. Therefore, they suppose using of regulatory and restrictive measures in international capital movements (Kose, Prasad, Rogoff, Wei, 2007).

The researches of scientific literature show that many theories and laws do not cover crisis phenomena, which, as a rule, lead to the inevitable growth the state budget expenditures due to the increase social expenditures (unemployment compensation, benefits, etc.).

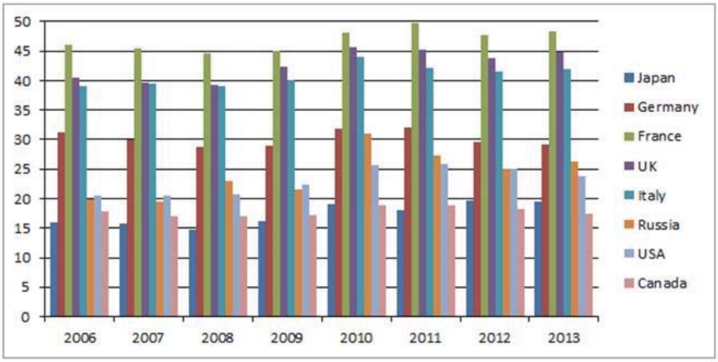
3. Objectives, Materials and Methods

The objective of research is to substantiate the use of modern tools of fiscal regulation on the basis of theoretical analysis of scientific views on fiscal policy issues of the state. It is founded by the authors that efficiency and the impact of the fiscal regulation , on the one hand, is provided by the formation of financial resources in order to implement the functions of the state, on the other hand, it is provided by the creation terms of continuous search of reserves of efficiency of managing.

The information base of research is statistical information OECD National Accounts Statistics Database on the Group of Seven (Japan, Germany, France, Italy, Great Britain, USA, Canada) and Russia.Methods of a comparative, dynamic coefficient and analysis of crucial indicators are used in the process of the research.

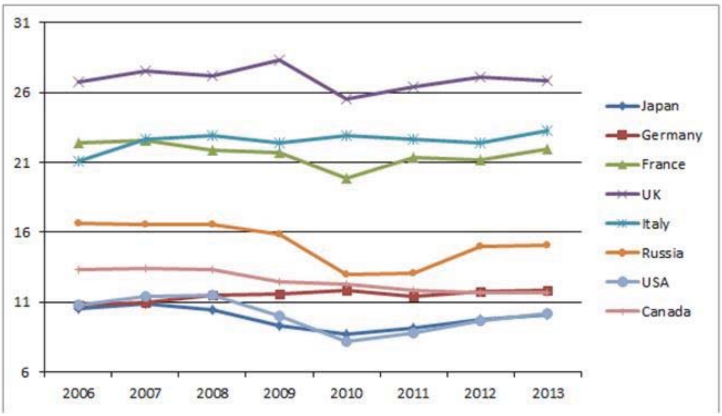
4. Results

Let us consider the dynamics of public expenditures (Fig. 1) and revenues (Fig. 2) of the "Group of 7" (Japan, Germany, France, Italy, UK, USA and Canada) and Russia.



The data are taken from the OECD National Accounts Statistics Database, November 2014.

Figure 1 - The dynamics of budget expenditures to GDP ratio, %



The data are taken from the OECD National Accounts Statistics Database, November 2014.

Figure 2 - Dynamics of tax revenues to GDP ratio, %

Figures 1 and 2 demonstrate that there is a noticeable drop in the share of tax revenues in GDP after the beginning of the global financial and economic crisis of 2008 in all countries. However, there is also a growth index of the share of budget expenditures in GDP at the same time.

5. Discussion

At present, the economic science offers various macroeconomic instruments for better and effective management of fiscal policy. The analysis and evaluation of government revenues and outlays of the Group of Seven (Japan, Germany, France, Italy, Britain, USA, Canada) and Russia revealed that after the beginning of the financial crisis of 2008 there has been a noticeable drop of share of tax incomes in Gross National Product while growth of indicator of the share of expenditures of the budget in Gross National Product in all these countries.

A lot of foreign and Russian researches have common opinion about the formation in the structure of fiscal policy of the state unit of fiscal policy. American economists (Henning, Kessler, 2012) comment financial crisis financial crisis in the eurozone as follows: “A fundamental reform of fiscal control (institutions, rules and procedures) will remain a priority on its agenda for a long time”.

Yu.Ya. Oljsevich noted in his report: “It is possible to see the first signs of a new scientific way to study a real situation in terms of the financial imbalances in the national economy (the level of public debt, the budget deficit, the debt of the private sector, the share of savings in personal sector, and external imbalances). The G-20 experts proposed them after the crisis of 2008-2009. They also proposed methods to analyze these signs (including comparative historical)” (Oljsevich, 2013). There is a need to study the institutional aspects of economic security of the country and its regions, as well as to solve a problem of formation institutional systems and environments (Frolov, 2008).

The article reveals the particularities of the transformation of the tools of fiscal regulation in terms of development of financial crisis phenomena. Crisis phenomena also break structures of many theories and laws. The article gives a conclusion about the need for empirical evidence of the influence of macroeconomic instruments on fiscal policy of the state at a given place and time.

6. Conclusions

The need for stability and effective socio-economic development of Russia as well as the need for improvement of public service quality is caused by the state of fiscal relations. It implies to consider the role of fiscal policy instruments for the sustainable development of the state.

Then tax and non-tax revenues (financial resources) accumulated in the revenue side of the budget are redistributed (government spending) in accordance with the state policy of socio-economic development of Russia. Efficiency of public spending can be estimated directly and indirectly from the results characterizing the performance of the functions entrusted on the authorities, i.e. to ensure innovation and investment, to improve the quality of life of all social groups, and others.

The state task is to enforce fiscal law, defense functions, management of federal programs and projects. It also includes enforcing the main function of the financial system, which is funding the operation of technical systems eliminating the possible emergence of “structural imbalances” (Sukharev, 2009).

The targets of the state are reflected in fiscal policy. The state determines content and directions of its activity, securing appropriate funding of the public sector, the public sector science, the public education sector, the entire system of public administration, protection of health, culture, defense, law enforcement agency. At present, the economic science offers various macroeconomic instruments for better and effective management of fiscal policy. The analysis and evaluation of government revenues and outlays of the Group of Seven and Russia revealed that after the beginning of the financial crisis of 2008 there has been a noticeable drop of share of tax incomes in Gross National Product while growth of indicator of the share of expenditures of the budget in Gross National Product in all these countries. A lot of foreign and Russian researches have common opinion about the formation in the structure of fiscal policy of the state unit of fiscal policy.

Tax regulation methods have paramount importance in comparison with non-tax methods in market conditions of managing. The interests of the state and its taxpayers particularly polarizing in the conditions of economic crisis, the budget deficit and the decline in living standards of the population collide in taxation.

The theory of optimal taxation which is a combination of economic interests of all the structural components of society should become a tax philosophy at the present of economy of any state.

However, the described above theoretical laws and phenomena should be verified under conditions of real economic, political and social reality.

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