

Types and mechanisms of functioning of fiscal policy

Типи й механізми функціонування бюджетної політики

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Key words:

discretionary and non-discretionary policies constraining and enabling policies, automatic stabilizers.

Ключові слова:

дискреційна й недискреційна політика, стримуюча та стимулююча політика, автоматичні стабілізатори.

Formulation of the problem. In terms of recurrence of development of the national economy, the threat of default depends on the ability to properly coordinate the vector direction of fiscal policy and to ensure financial stability of special attention, issues of fiscal policy, which has two components of the budget and tax. It ensures the coordination of the past two to promote economic development. Today in Ukraine there are no clear objectives and targets that need to be faced with a fiscal mechanism. So important is the study of theoretical and methodological fundamentals of the fiscal policy in order to enhance the process of stabilization of macroeconomic indicators in conditions of crisis.

Analysis of recent studies and publications. In foreign and domestic scientific literature has accumulated a significant amount of research to address the coordination of monetary and fiscal policy. The problem of the study of fiscal policy can be accessed in the works of Russian scientists as the V. Vishnevsky, A. Galchinsky, V. Geyets, V. Glushchenko, V. Kozyukov, V. Lagutin, R. Lysenko, V. Mishchenko and others.

Statement of the basic material. Depending on the phase of the cycle in which the economy, fiscal policy tools used in different ways. Therefore, in accordance with the nature of the instrument today are two types of discretionary fiscal policy:

- 1) expansive (deterrent) – fiscal policy, which covers the increase in government spending and tax cuts to expand aggregate demand in the economy during a cyclical downturn;
- 2) restrictive – fiscal policy to stabilize the economy under inflationary excess demand, which arises as a result of the cyclical upswing¹.

Speaking of expansionary policy, it should be noted that it is used in cases of recession, when the main objective is to reduce the recessionary output gap and to reduce unemployment and aims to increase aggregate demand. Its instruments are: an increase in public procurement; tax cuts; increase in transfers. In turn, the contractionary fiscal policy uses the following tools: cuts in public procurement; tax increases; reduction of transfers².

Another classification divides the fiscal policy on discretionary and automatic (non-discretionary). Discretionary fiscal policy is associated with the manipulation of taxes and government spending to influence the various spheres of economic activity in the interests of economic growth. Automatic fiscal policy or policies based on built-in stabilizers, changing economic conditions and run by a self-regulatory mechanisms.

With regard to auto policy, the inherent built-in stabilizers can only limit the scope and depth of business cycle fluctuations, but to completely eliminate these fluctuations are not. The best way to encourage the use of fiscal policy instruments and provides automatic and discretionary policy that may significantly affect the dynamics of social production and employment, lower inflation and other economic problems solution³.

¹ Лук'яненко І. Бюджетно-податкова політика України: нові виклики : [монографія] / І. Лук'яненко, М. Сидорович ; Нац. ун-т «Києво-Могилян. акад». – К. : НаУКМА, 2014. – 227 с.

² Молдован О. Ризики фискальної політики у 2010 р.: чинники та механізми подолання / О. Молдован [Електронний ресурс]. – Режим доступу : <http://old.niss.gov.ua.htm>.

³ Податкова політика України: стан, проблеми, перспективи: монографія / [П. Мельник, Л. Тарангул, З. Варналій та ін.] ; за ред. З. Варналія. – К. : Знання України, 2008. – 675 с.

Discretionary policy of legislative (official) changes in the value of the power of public procurement, taxes and transfers in order to stabilize the economy.

Advantages of discretionary policy presupposes the existence of the following factors.

It has a multiplier effect as a cumulative effect of a tool that allows you to balance the condition of all sectors of the economy.

No delay. This means that changes will take effect immediately after the adoption of the relevant laws, discretionary policy measures are usually so effective that the first results are visible after the slight period of time.

Discretionary policy in its purest form in the modern economy does not exist, that suggests that it relies on the built-in stabilizers. Since minor fluctuations in the economy does not require special measures, the situation changes all the cyclical ups and downs are stabilized without the participation of the legislature.

Automatic fiscal policy associated with the effect of automatic stabilizers. Automatic stabilizers are instruments whose value does not change, but the presence of which automatically stabilizes the economy, stimulating economic activity during a recession and its containment in the event of overvoltage. By the automatic stabilizers include value added tax, tax side; unemployment, poverty benefit.

The mechanism of action of automatic stabilizers in the economy. Value added tax at recession level of business activity (B) is reduced, as well as the tax function has the form $T = mv$, where T – tax revenues, t – tax rate, and the value of total income, the amount of tax revenue decreases, and Overload of the economy, when the magnitude of the actual release of the maximum, increasing tax revenues⁴.

Value-added tax provides stability. If the recession reduced the volume of sales, and since value-added tax is a tax side, part of the price of the goods, the fall in sales tax revenues from indirect taxes are reduced. When overloaded, on the contrary, increasing total revenue, sales volume increases, increasing the revenues from indirect taxes.

With regard to unemployment and poverty, the total amount of their payments increased by the recession and reduced when the boom.

It should be borne in mind that such instruments of fiscal policy such as taxes and transfers are not only on aggregate demand but also on aggregate supply. As already noted, tax cuts and increased transfers can be used to stabilize the economy and to combat cyclical unemployment during the recession by stimulating the growth of total expenditure and, consequently, economic activity and employment.

However, since the tax is treated as expenses, the increase in taxes leads to a reduction in aggregate supply, and tax cuts to the growth of business activity and the volume of production. Detailed study of the effect of taxes on aggregate supply belongs economic adviser to US President Ronald Reagan, the American economist, one of the founders of the concept of "economic theory offers" ("supply-side economics") A. Laffer. He built a hypothetical curve by showing the effect of tax rate changes on the total amount of tax revenues in the state budget⁵.

If fiscal policy impact on aggregate demand and on the functioning of the economy as a whole, the question remains about the forms in which it should be implemented. In turn, Keynes's theory requires that the expansive policy leads to higher costs, without considering the alternative, which is to reduce taxes⁶. Together with the choice of the instruments of fiscal policy neoclassical model also offers a choice between fiscal and monetary measures, the impact on aggregate demand, thereby linking the management of aggregate demand with the result of the interaction of consumption and investment. This in turn means that fiscal policy is the driving force of economic growth.

However, in this approach, there is a significant contradiction, which boils down to a limited extent, or vice versa, the active should be the role of government in the economy. The views on this issue vary depending on the severity of market failures and the effectiveness of possible government work to overcome them. In market economies, the state plays the role of "overcoming market failures".

⁴ Вдосконалення координації грошово-кредитної та фінансової політики: інформаційно-аналітичні матеріали / за ред. В. Міщенко, О. Кіреєва, М. Шаповалової. – К. : Центр наукових досліджень НБУ, 2005. – 96 с.

⁵ Унінець-Ходаківська В. Сучасна фінансова політика на фінансових ринках / В. Унінець-Ходаківська // Збірник наукових праць Національного університету державної податкової служби України. – 2013. – № 2. – 191 с.

⁶ Паєнко Т. Інструменти фінансового регулювання фінансових потоків / Т. Паєнко [Електронний ресурс]. – Режим доступу: <http://www.economy.nayka.com.ua/659>.

Another controversy among supporters of state regulation of fiscal policy should be made aware of differences of opinion over methods and levers of influence on economic processes. One of the most topical subject of debate is the question of how the government's influence on the cash flow.

In one of the doctrinal approaches traced dependence "costs – income". According to him, government expenditures are considered in the light of investment, exports, and procurement at the expense of budget funds. As a result of the outflow of savings and imports there is a falling real consumption of the product, which creates a potential gap in spending. It can be filled injections investment, exports and government procurement⁷. As investment and exports, and government procurement neutralize the outflow of savings and imports, an increase in public spending on goods and services increased aggregate demand due to the additional demand from the state and the further expansion of income and expenditure in the private sector.

In accounting of public spending equilibrium volume of gross domestic product achieved under the condition of equality of the value of household savings and imports, offset by investment, exports and the amount the government spends on the purchase of goods, works and services. It should be noted that the additional increase in government spending is financed by the growth of public debt. An additional source of financing of public spending would be to increase tax revenues.

On the other hand, the increase in government spending is financed by a corresponding increase in taxes, while the unit achieved a multiplier effect. Thus, the increase by a certain amount of public expenditure subject to funding them through higher taxes helps to increase the national income by the same amount. In the short term it is, of course, raises interest rates on loans provided by commercial banks, and at the same time reduces private sector investment. Overall, however, due to the expansion of consumption expenditure, aggregate demand with an increase in government purchases increases. Therefore, a high level of income leads to higher consumption, because the increase in government spending increases income, it automatically increases the level of consumption, which contributes to the following revenue growth. That is, high income, which is obtained by economic agents due to the increase in government spending leads to an increase in consumption, which according to augment income, directly determines the dependence of the levers of fiscal policy.

So, as Ukraine is a country with a view to the development of the national economy, as evidenced by capital intensity and offers a high level of income, then we give an example of "the formula Mandela". In 1962 R. Mundell has published an article entitled "Variability of capital and stabilization policy in a fixed and floating exchange rates", which have been disclosed mechanism of regulation of small national economies with high capital mobility⁸.

The essence of the mechanism is that the floating exchange rate the effectiveness of monetary, monetary policy, and a fixed – fiscal, fiscal. For example, lower interest rates in an open economy with a flexible exchange rate leads to a devaluation of the currency.

Due to the depreciation of the national currency depreciates the country's exports in the international market, increasing the volume of net exports, enabled economic growth, interest rates are rising again to an equilibrium state, the economy is recovering.

According to R. Mundell, under a floating exchange rate monetary policy, manifested in the regulation of the level of interest rates can be a powerful tool of influence on the volume of production that can be sold through the export channel. This in turn leads to the fact that the fiscal policy is inefficient⁹.

Thus, the increase in government spending leads to an increase in money demand and, consequently, the growth rates. As a consequence – the inflow of foreign capital strengthen the exchange rate to a level where the decline in exports negates the effect of the whole of government spending.

At fixed exchange rates, fiscal policy, on the contrary, become more efficient, because it does not change the volume of net exports. Now a similar situation is observed in China, where the yuan is so controlled that it can be considered fixed.

⁷ Державний бюджет і бюджетна стратегія в умовах економічних реформ : у 4 т. / за заг. ред. М. Азарова ; ДНУ «Акад. фін. управління». – К., 2011– . – Т. 2 : Бюджетна стратегія і державний бюджет 2012: збалансованість, прозорість, реалістичність. – 2011. – 912 с.

⁸ Уоллес Л. Опережая время / Л. Уоллес // Финансы и развитие. – 2006. – Сентябрь. – С. 4–7.

⁹ Там же.

It allows the government to support economic growth through large-scale public investment, which in the conditions of a floating exchange rate would bring no tangible effect, as the appreciation of the yuan would cause a rise in the cost of Chinese goods and the loss of existing positions in the world market. This pattern would be appropriate when you change the fiscal policy of Ukraine, because the domestic economy is not an example of the scale, in contrast to the Chinese.

R. Mundell and his boss with the IMF Marcus Fleming formalize these logical reasoning in the mathematical model, named in their honor. It provides a number of assumptions, as its conclusions are valid for a small open economy with a free cross-border movement of capital, which is not able to influence the world financial market.

The key thesis of the model "Mundell-Fleming" is that under a fixed exchange rate country can pursue an independent monetary policy. If such monetary control occurs, the exchange rate can't be fixed over the long term¹⁰.

What causes the existence of "an impossible triad" of macroeconomic regulation, which is also called triple or incompatible R. Mundell: free cross-border movement of capital, fixed exchange rate, independent monetary policy. In the long term it is impossible to achieve all of these goals simultaneously.

In a country with an open capital account balance of payments of public policy can be guided only by the outer goal – managed peg or internal – regulated prices, but not on both goals at the same time¹¹.

So, there is a strong correlation between income and expenditure budget, which is accompanied by a state-controlled economic activity of the national economy. However, the full liberalization of fiscal policy do not ensure the implementation of the State's individual functions.

Exploring the role of fiscal policy in promoting the national economy should first pay attention to the fact that its form direct and indirect tools. Straight levers of state regulation of the economy relate primarily to fiscal policy. Their use allows a systemic approach to the management of the national economy, as such, in practice, the functional relationship between the variables of macroeconomic variables. One of them is the cost of the state budget.

Government expenditures are costs associated with the activities of the state. With the help of the state introduced the consumption of so-called public goods. In addition, some government spending is the direct transfer payments to the private sector (social assistance, pensions, insurance, unemployment) that do not increase in private consumption, but alter its structure. On this basis, the states determine the relative size of the cost of private and public sectors of the economy, that is, the relative size of the private and public consumption.

Conclusions. Thus, we can identify the following characteristics of fiscal policy: formulated in positions that change in taxes and public expenditure affects aggregate demand and, consequently, the value of gross national product, employment and prices. Thus, the tax cuts and increased government spending provides an increasing impact on aggregate demand, by contrast, tax increases and cuts in public spending reduce aggregate demand. A characteristic feature of fiscal policy is that all the changes in the magnitude of taxes and government spending affect the GNP.

According to the current fiscal regulation tools distinguish non-discretionary and discretionary policy.

According to the final aims and objectives of fiscal policy has a stimulating or restraining character.

Summary

The article describes the concept of the content of fiscal policy, institutional approaches to the elucidation of its species. Opened species, the mechanisms of their functioning and interaction of interdependence.

¹⁰ Уоллес Л. Опережая время / Л. Уоллес // Финансы и развитие. – 2006. – Сентябрь. – С. 4–7.

¹¹ Юрій С. Сучасні тенденції розвитку європейського оподаткування та новітня парадигма податкової політики в Україні : [монографія] / С. Юрій, А. Крисоватий, Т. Кошук. – Тернопіль : ТНЕУ, 2010. – 292 с.

Анотація

У статті описується концепція змісту фіскальної політики, інституційних підходів до з'ясування її видів. Розглянуто види, механізми їх функціонування та взаємозалежність.

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