

Adam smith fiscal policy research paper example

[Business](#), [Marketing](#)



Introduction

In the second half of XX century a trend towards scaling up and strengthening the role of the state in the economic sphere. At the same time it is recognized that the highest efficiency is achieved in a competitive market mechanism. Therefore, the state aims to not adjust the market mechanism, and to create conditions for its free operation, providing a high level of competition. Competition should be wherever possible regulatory influence of the state, and wherever it is needed. Most economists converge in the understanding that the "invisible hand of the market" is required to be supplemented by the "visible hand of the state."

Underestimation of the economic role of the state, his ouster from the economic life of society, as evidenced by the experience of the first years of reforming the economy in our country, generates negative consequences.

World experience has shown that there cannot be an effective market economy without an active regulatory role of the state, which is to maintain economic stability and macroeconomic equilibrium, to take measures to mitigate cyclical ups and downs in the economy. First of all, the state promotes sound economic performance of all entrepreneurs. To do this, it will assume the legal framework and social climate to facilitate the efficient functioning of the market economy.

Fiscal policy is a set of financial activities of the State to regulate the government revenue and expenditures. Among the many objectives of fiscal policy, forming the so-called tree main goals is: sustained growth in national income, moderate inflation, full employment, smoothing cyclical fluctuations in the economy.

Body

Taxes are an integral part of the market economy. Historically formed two models of market economy:

- Liberal model - little government intervention in economic processes; narrow the public sector; wide margin businesses; minimal government involvement in solving social problems; indirect monetary nature of government regulation, which is limited mainly to macroeconomic processes; state paternalism is directed only to the poor (Model United States, Britain, France);
- Socially oriented model - a high degree of government regulation; significant public sector; high degree of regulation of the market, not only at the macro and micro levels but; state paternalism aims to almost all segments of the population. Such a model is developed in Germany, Norway, Sweden, Austria, and Japan. The Russian economy is a revival of market relations. Given that Russia develops liberal market trends, this is not accompanied by a reduction of the tax burden. On this basis, it can be argued that the country now has developed a kind of mixed market model that combines elements of the two models. The choice of a model of the market determines the tax capacity (the tax burden, the tax burden, the tax burden) production. The liberal model allows the state to charge a minimum of taxes and social-oriented suggests high rates of taxation, a wide range of contributors, minor benefits.

The tax burden can be calculated for the economy as a whole and for specific taxpayers. The tax burden on the macro level is defined as the ratio of the total amount of taxes collected to the amount of the gross national

product, and shows what part of the social product produced is redistributed as a result of budgetary mechanisms. In economically developed countries with socially oriented economy mean value of the tax burden is 40 - 45%. In Russia, this figure is slightly higher: taking into account the income of non-budgetary funds, he is about 48%. For specific taxpayer tax burden shows the share of total income of the person who is alienated in the budget.

Almost taken the ratio of all assessed taxes and tax payments (sometimes included here, and off-budget payments) to the volume of sales. Indicator of the tax burden depends on the activities of the payer. Thus, the enterprises involved in the production of wines and other alcoholic beverages, it reaches 50%, as the price of this product is great share of excises, agricultural enterprises, having a lot of tax benefits are tax burden, not exceed 10% Economic substance of the tax exemptions constitutes State in favor of a certain part of society's gross domestic product (GDP) in the form of assessment. Universal initial source of tax deductions, charges, fees and other payments, regardless of the object of taxation is the GDP, which forms the primary cash income participants in social production and the state: compensation of employees, profits of enterprises and central government revenue (taxes in the budget, payroll taxes - to non-budgetary funds).

Distribution of GDP involves 2 steps: first formed primary cash income; then cash income participants in social production are allocated to the state: workers pay income tax to the budget and make contributions to the pension fund, businesses pay taxes, fees.

Adam Smith offered his view of the role of the state in the economy, which was later named the classical theory. In accordance with the state must

ensure the safety of human life and property, to resolve disputes, to ensure compliance with the rules. In other words, the government should do what the individual is or is not able to perform on their own or make it ineffective. In his description of the system of the market economy, Adam Smith argued that it is striving to achieve their entrepreneur private interests, regardless of his will and consciousness, leads to the achievement of economic benefits and benefits for the whole society. Entrepreneur of the "invisible hand" is directed to the end which was no part of his intention. The main condition for achieving such results is the requirement that all business entities to implement and guarantee the fundamental economic freedoms: the freedom to choose the scope of the freedom of decision-making, freedom of competition and free trade. Smith was deeply convinced that the key to the country's wealth is the principle of «laissez faire», i. e. freedom of economic activity. The less government interference in the economic life of the country, the better for economic development. However, Smith did not seek to nullify the influence of the state on the economy. The State, in his opinion, should play the role of arbiter, as well as to those socially necessary economic activities that cannot afford private capital.

Remuneration of officials, lawyers, teachers should not be too small or too generous. "If for some service to pay significantly less than what should be, at its inability to affect the implementation of disrepair and most of those who are engaged in this business. If it pays too much, its performance will suffer further from negligence and laziness. "

Taxation in any civilized country should initial on certain principles - basic ideas and positions that exist in the tax area. These principles have always

been the subject of special attention on the part of society, as from them depended largely on the social and economic well-being and tranquility of the population. Founder of classical political economy Scottish philosopher and economist Adam Smith (1723-1790) in his " Inquiry into the Nature and Causes of the Wealth of Nations" (1776) formulated four principles, relevant and at the moment:

- The principle of justice, claiming universality and uniformity of taxation taxes between citizens (equal to the duty of citizens to pay taxes) in proportion to their income. This principle means that taxes should be levied with the capabilities of the taxpayer who is required to participate in the financing of the relevant part of government spending. Government taxes and spending should influence the distribution of income. The tax burden imposed on some individuals, privileges granted to others.

At the moment to visualize the degree of income inequality used the so-called Lorenz curve. Applied to the analysis of taxation, using the Lorenz curve, it can be concluded that progressive taxes reduce inequality: they make the distribution of after-tax income more uniform compared with the distribution of Operating Income. It follows from this conclusion that progressive taxation more equitable because it provides greater equality of taxpayers;

- The principle of certainty on which the amount, manner and time of payment must be completely accurate and are known in advance to the taxpayer. This stability of the main types of taxes and tax rates for a number of years. At the same time, the tax system must be flexible and adaptable to the changing socio-economic conditions;

- The principle of comfortable - the tax should be levied at such time and in such a way that the most convenient for the payer. System and the procedure of payment of taxes should be simple and convenient for taxpayers;
- The principle of economy, i. e. reducing costs of tax collection, the rationalization of the taxation system. The amount of fees for each specific tax shall, in accordance with the examined principle greatly exceeds the cost of its collection and maintenance.

German economist Adolph Wagner (1835-1917) at the end of the last century, conceptually added principles of Adam Smith, who believed the source of taxes cover the overhead of the state and therefore defended the rights of taxpayers. Wagner was guided by the theory of collective needs, i. e. paramount importance attached to the principles of financial adequacy and elasticity of taxation. Principles of taxation have become a system that takes into account the interests of taxpayers and the state with a priority of the latter.

Interpretation of the origin of the state and the law as a result of the free agreement of free individuals is derived from the popular in modern times the theory of " social contract". This concept was originally an illusion of a special kind - the present, overturned in the past. Development contract ethics, culture of compliance agreements became imperative. Going radical rethinking of the rights and freedoms granted to each individual. One of the founders of the theory of the social contract was an English philosopher and economist John Locke (1632-1704). It is in his writings we find the rationale of the concept of private property as a prerequisite for civil society and the

contractual interpretation of the powers of the government.

Adam Smith in "The Wealth of Nations," stressed the importance of the state in the first place, in the conservation and protection of private property as from attacks by other members of the society, as well as from foreign countries, and secondly, in the production of goods that are not profitable private producers. Therefore, the main functions of the state, thought Adam Smith, should be: social support for low-income and disabled people; maintaining law and order and defense.

Within the framework of liberal reformism was first posed the problem of active state intervention in the economy as a factor in progressive development. Truth while under state intervention in the economy was meant legislative activity aimed at regulating working hours, safety conditions, the minimum wage, as well as intervention in social conflicts. German economist Friedrich List in his "National System of Political Economy" comes to political economy as a science of history, highlighting the five stages of economic development of nations. Therefore, criticizing cosmopolitan economy of Adam Smith, F. Liszt acts primarily as a national economist. "Political economy of exchange values," he contrasts the national economic theory of the productive forces, the center of which is not a division of labor, and the priority of the internal market on the outside. Realizing that the principle of comparative advantage can benefit primarily the rich nations, and of free trade is beneficial to advanced nations, he defended the comprehensive development of Germany under the guise of a protectionist policy. He believes that the increase in prices due to the protectionist policy of the state would be a means of industrial education of

the nation. However, it is not an absolute of protectionism and finds it useful, mainly in the transition period when the economic development of the country's economy still lags behind advanced countries.

Conclusion

Eminent British economist Adam Smith (1723-1790) became known as the "prophet of free competition." The greatest merit of it can be assumed that in the world economy, he saw a natural self-regulating order. The basic idea in the teachings of Adam Smith - the idea of liberalism, minimal government intervention in the economy, market self-regulation on the basis of free prices formed depending on supply and demand. The main work of his life, "Inquiry into the Nature and Causes of the Wealth of Nations" (1776) had a great influence on the subsequent century. Economic life, according to Smith, is subject to objective laws, which do not depend on the will and aspirations of the people conscious. The starting point of all his research forms the problem of division of labor, which binds in a single society "selfish individuals." After researching this issue, it goes to the presentation of the origin and use of money. Smith made a significant contribution to the theory of value, in the doctrine of the income of productive and unproductive labor, capital, and reproduction of the economic policy of the state.

About the outstanding talent of Smith as a thinker is the fact that, as a matter of fact a contemporary of the manufacturing period in the development of the economy, he was able to create a general theory of the capitalist mode of production and, according to modern scholars, is quite mature for his understanding of economic laws.

Many modern scholars of the creative heritage of Adam Smith noted that the

underestimation of his views and the lack of interest in them now associated mainly with numerous vulgar modifications of the basic ideas classic created by his followers. Criticism of the economic views of Adam Smith also directed not so much to the original source as to its subsequent unscrupulous interpretations.

Meanwhile, as shown in numerous international seminars devoted to the discussion of the creative heritage of Adam Smith, many of the ideas " classic bourgeois political economy" are still relevant and can be used effectively in the conditions not only just emerging, but highly developed market economy.

Principles of Adam Smith, because of their simplicity and clarity, do not require any other explanations and illustrations, they became the " axioms" of tax policy.

Today, these principles are expanded and supplemented in accordance with the spirit of modern times. Modern principles of taxation are as follows:

1 The level of tax rates should be set taking into account the possibilities of the taxpayer, that is. E. Incomes. Tax revenue should be progressive. This principle is not always respected; some taxes in many countries are pro-rated.

2 Every effort should be to the taxation of income was of a single character. Multiple taxation of income or of capital is not allowed. An example of this principle is the replacement of the developed countries of the turnover tax, where the incidence of turnover occurred on the rise of the curve on VAT, where the newly created pure product is taxed only once, until its implementation.

3 Obligation to pay taxes. The tax system should leave no doubt in the inevitability of a taxpayer's bank account.

4 systems and the procedure of payment of taxes should be simple, understandable and convenient for taxpayers and cost-effective for institutions collecting taxes.

5 The tax system must be flexible and adaptable to the changing socio-political needs.

6 The tax system should be created to ensure the redistribution of GDP and be an effective instrument of state policy.

Modern tax systems use both the principle of taxation, depending on the economic and social feasibility.

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