

## **BUDGETARY AND FISCAL RELATIONSHIPS AS A SPECIFIC FIELD OF GOVERNMENT ACTIVITY**

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**Abstract:** The article aims to research the characteristics of the formation and development of budgetary and fiscal relationships as a specific field of government activity that has a significant impact on the national system of economic and financial security and on the process of sustainable development of state. The authors reflect the category of budgetary and fiscal relations as an institution with elements of public administration and regulation; the historical context of the emergence and development of budgetary and fiscal relations in the state; the characteristics of the absolute, differential and budgetary incidence methods of budgetary and fiscal relations; analysis of the components and objectives of budgetary and fiscal policy as well, the instruments of budgetary and fiscal administration in the context of financial risk management and ensuring the financial security of the state.

**Keywords:** financial field, budgetary - fiscal field, absolute incidence method, differential incidence method, budgetary incidence method, the institutional field of budgetary and fiscal relationships

**JEL Classification:** H30, H60, H20

### **Introduction**

The methodological basis of the research constituted the strategic directions for ensuring financial security; the main directions of the budgetary and fiscal policy of the state; the researches of classical, neoclassical and neoliberal economists, of the experts in the fields of economic and financial security, taxation and fiscal administration. All this allowed the systematization of areas and mechanisms for effective management of financial risks in the field of budgetary and fiscal relationships and the choice of effective policies for the sustainable development of national economies.

### **2. Specific field of government activity in budgetary and fiscal relationships**

The budgetary-fiscal field as an institution with elements of public administration and regulation has a social-economic and political base grounded theoretically and categorically in a wide range of scientific research. The historical background of the emergence and development of the field of budgetary and fiscal relations is determined by the secular practices of taxation and the development of budgetary relations in the state reflected in the works of the famous classics of economic science A. Smith, D. Ricardo, J.C.L. Simonde de Sismondi, J. S. Mill and many others.

In the theory of public finance, D. Brummerhoff reflects the impact of fiscal policy measures on the evolution of the budgetary field through different methods of analysis. Thus, for example, the impact of the income tax rate can be analyzed from a micro- or macro-economic point of view, selectively or continuously, in a short- or long-term perspective, or using absolute, differential or budgetary incidence methods . (see table 1) The incidence here refers to the impact of financial and political measures which, as a rule, reflect the process of social-economic redistribution. This refers to the changes that occurred as a result of the economic - financial and political measures compared to the situation without intervention. Thus, the analysis is constantly based on a comparison of the real state with a hypothetical state or two hypothetical states - development options (Brummerkhoff D., 2001, pp. 208-209).

**Table 1. General characteristics of absolute, differential and budget incidence methods**

<b>METHOD</b>	<b>METHODS OF APPLICATION / CHARACTERISTICS</b>
Absolute incidence method (or specific method)	It can be used in the analysis of isolated individual scenarios, for example, of changes in a separate budgetary-fiscal instrument (of a tax rate, etc.) or of a budgetary-fiscal indicator (of fiscal receipts, etc.). Depending on the fact that a change in the parameters of revenues or expenditures is taken into account, one speaks of the incidence of budgetary revenues or expenditures.
Differential incidence method	It can be applied in studying the effects of replacing (substituting) one financial and political instrument with another (for example, replacing tax A with tax B) under the conditions of a constant budget volume. The disadvantage of this method is manifested if a change in the structure of taxes changes the level and structure of prices, and the state cannot purchase goods in the same volume at the same level of expenses. Thus, the method can be used when any proportional tax is chosen as the basis of comparison.
The budget incidence method	It represents a simultaneous and balanced variation of revenues and expenses, which changes the volume of the budget. The incidence of tax increases always depends on how the additional revenue is spent. Because the revenue of a particular tax rarely has a targeted relationship with a particular expenditure, its use and impact may differ.

Source: developed by the author

The methods of absolute, differential and budgetary incidence presented by D. Brummerhoff in the 90s of the last century, represent an attempt to explain the impact of budgetary and fiscal policy measures on changes in revenues or budgetary expenditures using analytical tools and an analysis of financial risk management methods in the field of regulating budgetary and fiscal relations. Such problems remain the subject of contemporary research both nationally and internationally. In this context, the institutional field of budgetary and fiscal relations is characterized by goals, principles and levels of organization, forms and directions of implementation. (see table 2)

**Table 2. Types and characteristics of the objectives of the institutional field of budgetary and fiscal relations**

OBJECTIVE	GENERAL CHARACTERISTICS
Fiscal	It ensures the formation of budget revenues based on the redistribution of a part of the GDP to the budget system.
Economic	It ensures the effective involvement of the state in the regulation of the national economy, the maintenance of sustainable economic growth rates, the elimination of structural imbalances in social reproduction, the stimulation of investments and innovative development.
Social	It ensures social equity, alleviating the inequality of income levels of different social strata, thus contributing to the development of the material and intellectual potential of the population.
Ecologic	It provides conditions for the protection of the environment and the rational use of natural resources, the creation of a compensation mechanism for the use of natural resources and environmental pollution.
Investment	It creates, guarantees and ensures tax incentives for investors and other participants of investment relations, increasing the investment activity of the national economy.
Promotion of international cooperation	It provides conditions for the fulfillment of international financial obligations, contributes to the unification and harmonization of the fiscal and budgetary system in accordance with international requirements, strengthens economic ties with other countries.
Ensuring the sustainability of national social and economic security	It ensures the conditions for the implementation of measures to ensure economic security in order to prevent and counteract the complex and persistent threats of imbalance of the national budget system, it promotes the development of favorable budgetary and fiscal relations.

Source: based on D. Brummerhoff (2001)

The investment objectives, promoting international cooperation and ensuring national social-economic sustainability are not presented and analyzed in D. Brummerhoff's Theory of Public Finances, however, we believe that there are at least two reasons that require their highlighting in the context of the analysis of regulatory efficiency and financial risk management of the contemporary budgetary and fiscal fields:

- First of all, investment activity is currently considered as one of the mechanisms for implementing the strategy of ensuring the competitiveness of national economies in the context of the intensification of globalization and regionalization processes. At the same time, factors that negatively affect investment activity represent a threat to sustainable economic growth.
- Secondly, in each of the key areas of the budgetary - fiscal policy implemented in order to ensure the macroeconomic policy of ensuring the competitiveness of the national economy, sustainable development and increasing investment activity, budgetary and fiscal instruments are used (for example, new rules for the formation and execution of the budget, new budgetary and fiscal administration tools; changing the structure of the fiscal burden in society, etc.) that complete the system of instruments for ensuring national social and economic security.

In classical economic and financial theories, the content of the objectives of the field of budgetary and fiscal relations is largely determined by its form or model. Thus, for example, at the initial stages of the formation and development of public finance as a science, the types of fiscal policy

models that determined the objectives of the field of budgetary and fiscal relations were correlated with the size of the fiscal pressure (burden) on the economy. In this sense, we can distinguish the following types of models:

- ❖ Policy of maximum tax rates;
- ❖ The policy of minimum tax rates;
- ❖ The policy of reasonable tax rates.

The listed models found their foundation in the works of J. Keynes and A. Laffer. In his research, J. Keynes characterized the first type of model – *the policy of maximum tax rates*, determining as the basic objective of the field of budgetary and fiscal relations fiscal relations (Griffith T., 2017). In this context, the imperatives of the model represented by classical economic liberalism are the following: *a high fiscal burden on the economy and the population; the active intervention of the state in the development of the economy, including through budgetary investments; the low level of public expenditure for the maintenance and development of the social sphere.*

A. Laffer is considered to be the founder of the policy model of minimum taxation (taxation) rates, or rather, of the regulation policy of tax rates (Laffer A.B., 1981). This type of model is characterized by the lowest possible level of tax rates and, at the same time, takes into account the interests of the state and taxpayers, but the state reduces its spending on investments and social programs. Another interpretation of the policy of minimum tax rates - the policy of fiscal completeness - is associated with the focus of the national economy on the relocation of the jurisdiction of the top management of foreign economic agents, primarily transnational companies, and their transformation into their own tax residents (The Encyclopedia of Taxation & Tax Policy, 2005). In other words, the state seeks to receive additional tax revenues to the budget without increasing budget expenditures. This model is widely used in offshore countries.

The model of the policy of reasonable rates of taxation (taxation) is considered the most modern, widely applied in countries with a developed economy. The most important features of the policy are a balanced level of the tax burden at the same time as sufficient coverage of social expenditures. The policy of reasonable tax rates can be considered a combination of the elements of the first two policies presented previously and is characterized by a fairly balanced level of tax rates, which allows ensuring an advanced level of economic development while maintaining the significant volume of social expenditures. Such a policy is characteristic of a period of socially oriented economic growth, and the objectives of this policy are at the same time fiscal, economic and social (Perotti R., Strauch R., et.al., 1998. p.67). New types of budgetary and fiscal policy models are grounded in contemporary theories of taxation. Thus, corporate fiscal policy models are distinguished, effective, aggressive, adaptive, optimal, etc.

Based on the above, we can conclude that the modeling, elaboration and implementation of the budget-fiscal policy is closely related to the economic development scenarios and, consequently, to the development of the field of budgetary and fiscal relations.

In the field of budgetary and fiscal relations, depending on the purpose and the period of time for which the objectives and development goals are determined, the budgetary-fiscal policy can have a strategic or tactical character. The strategic aspects of the budget-fiscal policy cover a block of objectives and goals in the field of budgetary and fiscal relations on a large scale, for the long-term period, the tactical ones - achieving a certain stage of development of the field or improving its

individual elements. The strategic aspects of the budgetary - fiscal policy are based on the following principles (The Encyclopedia of Taxation & Tax Policy, 2005):

- *the continuity* of the main directions of the state policy adopted in the early periods and which require development in the future periods;
- *the adaptability* of the current economic policy of the state for a period of 5-10 years with the strategic directions of social and economic development;
- *competitiveness* with the economic policies promoted by the states of the world.

Moreover, in any of the periods, we consider that the budgetary - fiscal policy represents an important regulator of the institution of "state intervention" in the economy, which can be achieved through various methods: fiscal manipulation; revision of tax rates; establishing and canceling certain types of tax preferences; budgetary - fiscal maneuvers; transferring the tax burden from one category of taxpayers to others; interbudgetary redistribution of budget funds and others. Thus, in order to prevent the risk of the transformation of state regulation into a state intervention that harms economic development and social stability, when implementing budgetary and fiscal policy measures, the activity of state-authorized bodies must be based on the general, unanimously accepted principles of development socially and economically sustainable.

## **Conclusion**

The characteristics of the formation and development of budgetary and fiscal relations as a specific field of state activity are determined by the following aspects: firstly, by the specificity of the field of budgetary and fiscal relations as an institution with elements of public administration and regulation; secondly, by the historical premises of its emergence, conditioned by the development of fiscal theories and budgetary and fiscal relations in the state since its formation; thirdly, the choice of fiscal policy objectives and fiscal administration tools to ensure the sustainable development of the national economy.

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