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THE ROLE OF BUDGETARY-FISCAL POLICY IN REDUCING REVENUE INEQUALITY IN THE REPUBLIC OF MOLDOVA

ROLUL POLITICII BUGETAR-FISCALE ÎN ATENUAREA INEGALITĂȚII VENITURILOR ÎN REPUBLICA MOLDOVA

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Abstract: *Income inequality is a current socio-economic problem both in the Republic of Moldova and in several countries. The implementation of tools to mitigate inequalities is a condition for ensuring the national security of the Republic of Moldova and sustainable development throughout the world. Fiscal policy plays an important role in redistributing income in the economy and thereby mitigating the rise in income inequality. The relatively low redistributive effect of direct taxes and social transfers implies changes in the budget-fiscal policy in the Republic of Moldova. Therefore, some budgetary-fiscal policy measures are proposed in order to mitigate income inequality in the Republic of Moldova.*

Keywords: *budgetary-fiscal policy, income inequality, Gini coefficient, poverty, taxes, social transfers.*

JEL Classification: E62, I3.

1. Introduction

Social inequality is a reality inherent in any society, even if there are different degrees of its manifestation. The reduction of inequalities is found among the 17 Sustainable Development Goals included in the 2030 Agenda for sustainable development of the 193 UN member states, including the Republic of Moldova. In order to integrate the Sustainable Development Goals at the national level, the Republic of Moldova developed the National Development Strategy "Moldova 2030" [1]. Thus, until the year 2030, our country, along with other countries, will mobilize its efforts to combat inequalities, to eliminate all forms of poverty and achieve the other objectives set in the Agenda.

Social inequality is a fundamental premise of social stratification, in which individuals, groups or social strata are at different levels of the vertical social hierarchy and who have unequal opportunities to satisfy their material, social or spiritual needs. Inequality has a multidimensional character, manifesting inequalities in consumption, in education, in health, in access to resources and digital technologies, etc. The main factor that determines these manifestations of inequality is income inequality, and most inequalities in the Republic of Moldova derive from income inequalities.

2. Material and method

In the research, the method of analyzing the literature in the researched field, the comparative method, the scientific abstraction, etc., were used. Also, the inductive method was used, with the help of which concrete facts were generalized, analyzed, synthesized and conclusions were formulated on the researched problem.

The informational support of the research is represented by both national scientific publications and international studies, statistical data presented by the National Bureau of Statistics (NBS) of the Republic of Moldova, data published by Eurostat, the Organization for Economic Cooperation and Development (OECD) and other resources informational.

3. Results and discussions

Income inequality is inextricably linked to poverty. Poverty is characterized by the lack of resources to satisfy the minimum physiological needs of the population. The high level of poverty is correlated with the high level of inequality. Reducing inequality and poverty are interrelated objectives, because to reduce inequality it is necessary to increase the incomes of the poorest households, that is, to reduce the level of poverty.

In the Republic of Moldova, in recent years, poverty and income inequality have tended to increase, and the Covid-19 pandemic has only amplified their rate of growth. The problem of inequality is also exacerbated due to the increase in the level of poverty. According to the NBS, in 2020, the population with incomes below the subsistence level (extreme poverty rate) constituted 10.8% of the total population, increasing by 0.1 percentage points compared to 2019 (Table 1). At the same time, the absolute poverty rate was 26.8%, increasing by 1.6 percentage points compared to 2019, this being significantly higher in rural areas compared to urban areas. In 2020, in rural areas, absolute poverty was 35.3%, compared to 14% - in urban areas. In 2019, these indicators were lower, 34.5% - in rural areas and 11.2% - in urban areas.

Table 1 Dynamics of the Gini Coefficient and the poverty rate in the Republic of Moldova, in the period 2015-2020

	2015	2016	2017	2018	2019	2020
Gini coefficient by disposable income	0,3164	0,3222	0,3084	0,2931	0,3148	0,3226
Absolute poverty rate (%)	25,4	26,4	27,7	23,0	25,2	26,8
Extreme poverty rate (%)	10,5	10,4	11,0	8,7	10,7	10,8

Source: Developed by the author based on sources [2], [3]

The increase in the poverty rate was accompanied by the increase in the level of income inequality. Although between 2015-2018 the Gini coefficient for total disposable incomes decreased by 7.4%, from 0.3164 to 0.2931, starting from 2019 there is an increase in this coefficient, in 2020 the value of the Gini coefficient after incomes available increased by 2.7% compared to 2019 and was 0.3226. According to World Bank studies, inequality becomes excessive starting from the value of 0.3-0.4 of the Gini coefficient. In addition, the share of income accumulated by quintile V (the richest 20%) in the last 10 years was more than 5 times

higher than the share of income accumulated by quintile 1 (the poorest 20%). At the same time, calculating the share of the income accumulated by the V quintile in relation to the I quintile, we find that 40% of the population's disposable income is owned by the upper quintile and only 8% of the income by the poorest quintile, which indicates that the level of inequality of incomes continues to remain quite high in the country.

Significant gaps are registered both in the amount of household disposable income and in the amount of consumption expenses. Thus, the least insured households (quintile 1) spend 4 times less than the best insured (quintile 5). At the same time, the consumption structure of extreme groups of quintiles differs significantly. The structure of consumption expenditure of the poorest population group is dominated by food products, utilities, clothing and footwear, which in total represent more than 80% of consumption expenditure, and the consumption of representatives of the higher income group is dominated by transport and fuel costs, which proves that consumption inequality in the Republic of Moldova is quite high. In the current context of socio-economic instability, rising inflation, an increase in poverty and income inequality is forecast in the Republic of Moldova.

Fiscal policy plays an important role in redistributing income in the economy and thereby mitigating the rise in income inequality. World experience in the implementation of economic policies demonstrates that reducing income inequality is possible, on the one hand, through progressive taxation of income and property, and, on the other hand, through increasing social transfers to the population with low incomes [4, p.39]. In addition, the government can alleviate income inequality by regulating the prices of certain consumer goods, on which poor households spend a significant portion of their income.

In the OECD countries, the instruments of budgetary and fiscal policy are used in the complex. Studies show that direct taxes and social benefits are largely successful in reducing inequality. Inequality in Slovakia decreased after the return to the progressive scale, and in the Czech Republic the increase in government transfers led to the increase in inequality, in Romania the proportional tax leads to the increase in inequality [10,11]. In the Republic of Moldova, the instruments of the budget-fiscal policy to mitigate inequality are implemented relatively poorly.

Currently, the tax system in the Republic of Moldova is based on the single income tax rate of 12% for individuals, replacing, from October 1, 2019, the progressive income tax scale of 7% and 18%. Until 2008 there were three tax rates. At the same time, each taxpayer (resident natural person) has the right to an annual personal exemption in the amount established according to art. 33 of the Fiscal Code. Also, people with gross incomes lower than the subsistence minimum (2082.7 lei per month in the first semester of 2020) are exempt from paying income tax. The reduction of the personal income tax rate reduced the redistributive effect of this tax and increased income inequality.

At the same time, we should not expect that the reintroduction of progressive taxation will reduce income inequality. To significantly reduce inequality, a complex progression is needed, with high shares for the wealthiest households. At the same time, it should be noted that excessive progressivity can increase income inequality, encourage entrepreneurs to avoid taxes, thus reducing the amount of redistributive resources, especially in countries with a large share of the shadow economy and low law enforcement.

Indirect taxation, resulting from the different structure of the population's consumption, can also be aimed at reducing inequality through the use of differentiated quotas: reduced quotas for goods of

current use and first necessity (Giffen goods, which have a significant weight in the consumption basket of the low-income population) and high rates - for luxury goods (Veblen goods).

Currently, reduced VAT rates of 8% are applied only to certain categories of food products and medicines. For most goods and services, the standard VAT rate of 20% is applied. In order to use indirect taxation to reduce inequality, it is necessary to increase the differentiation of VAT and excise rates, resulting from the structure of the population's consumption: lower rates for the goods that form the basis of the consumption basket of poor households and higher rates for luxury goods.

Wealth taxes also allow governments to influence the level of inequality by taxing luxury items more (real estate, expensive vehicles) and by applying higher rates to the taxation of goods received as inheritance and donation, as well as capital taxation. These taxes, applied by developed countries, also contribute to reducing inequality.

Elements of influencing inequality through property taxation are also introduced into the national tax system. This is, first of all, the "luxury" tax, which refers to real estate and cars that exceed the value of 1.5 million lei. Although the luxury tax is adopted in the Republic of Moldova [4, Article 287³ Fiscal Code of the Republic of Moldova], it practically does not work because of the various ways of evading the payment of the tax.

At the same time, properties obtained through inheritance are not taxed, thus, according to art. 20 (i) of the Fiscal Code, the patrimony received as a donation or inheritance represents a non-taxable source of income.

Social transfers also play a key role in reducing income inequality. Social transfers reduce inequality by providing targeted assistance to the poorest households. They include both cash transfers, in the form of pensions, unemployment benefits, disability benefits, allowances for people without income, for children etc., as well as social transfers in kind, i.e. individual goods and services provided to households by the state free of charge or at subsidized prices, such as public services in the field of education, health, etc. In 2020, transfers from the state had a share of 25.3% in the disposable incomes of households in quintile 1 (20% of the population with the lowest incomes), and in the disposable incomes of quintile V (20% of the population with the higher income level) - 12.2%.

Currently, the instruments of budgetary-fiscal policy are the most used by governments in mitigating income inequality. The international experience in the implementation of economic policies shows that the reduction of income inequality is possible, on the one hand, through the progressive taxation of the income and property of the population and, on the other hand, thanks to social payments from the state budget granted to the population with low incomes.

However, the use of fiscal-budgetary instruments for income regulation alone is often not sufficient to overcome excessive poverty and inequality. This may be due both to the imperfection of the budgetary-fiscal policy and to the impact on the population's income of some factors that are difficult to adjust through taxes and government spending. We refer in particular to the influence of the money market and inflation on the distribution of income. High inflation leads to income depreciation and affects the welfare of poor households the most. The policy of cheap money stimulates economic growth, reduces unemployment and increases the income of the

population. Thus, by promoting an adequate monetary-credit policy, the increase in poverty and income inequality can be prevented.

In the Republic of Moldova, the instruments of the budget-fiscal policy, as a whole, are insufficiently used to reduce income inequality. In this context, we consider it necessary to make some changes in the budgetary-fiscal policy, such as:

- the reintroduction of the progressive system of taxation of the incomes of natural persons;
- the differentiation of VAT and excise rates, resulting from the consumption structure of the least insured households (quintile 1) and the best insured (quintile 5): lower rates for the goods that form the basis of the consumption basket of quintile 1;
- the increase of the dividend tax rate (according to the Fiscal Code of the Republic of Moldova, art. 90¹ paragraph (31), the dividend tax is a fixed rate of 6%);
- increasing the minimum wage in certain sectors of the economy;
- ensuring the functionality of the luxury tax and the periodic adjustment of the list of luxury goods (objects of art, jewelry, luxury cars, yachts, etc.) with the legal determination of their value;
- the more efficient collection of taxes and social contributions, the regular and detailed evaluation of the incentives and tax advantages granted and the gradual elimination of the tax incentives granted in certain areas;
- the allocation of more resources for the social protection of the population. The share of social protection expenses in GDP, in the Republic of Moldova, is low compared to the European level, in 2020 they constituted 12.6% [8], in the EU-27 they amounted to 29.6% of GDP, the most high shares being recorded in France (36% of GDP), Austria (34%) and Italy (33%), while the lowest in Ireland (15%), as well as Latvia, Hungary and Lithuania (18%) [7].

In parallel, efforts must be continued to increase investment in education and professional development, quality education is the decisive factor in reducing inequalities, as well as creating a favorable environment for business, combating corruption and the informal economy.

4. Conclusion

In market conditions, the problem of income inequality becomes particularly acute, as inequality is closely correlated with people's quality of life and stability in society.

Income inequality is not only influenced by wage disparities, but also by income on capital and wealth, by the progressivity of the tax system or by social transfer spending.

Income inequality in the Republic of Moldova is caused both by the significant inequality of disposable incomes and by the low redistributive effect of the tax and social security system.

Fiscal policy plays an important role in redistributing income in the economy and thereby mitigating income inequality. The international experience in the implementation of economic policies proves that the reduction of income inequality is possible, on the one hand, through the progressive taxation of income and wealth of the population and, on the other hand, through the allocation of social transfers from the budget to the population with low incomes.

Fiscal-budgetary policy instruments can be used to ensure social equality and income redistribution. Depending on the instruments used, the budgetary-fiscal policy can influence the distribution of income both directly, by influencing the amount of net income of the population,

and indirectly, by providing public services, which, in turn, will influence the potential income of the population. This can be achieved by introducing the progressive taxation system, broadening the taxable base, taxing property obtained through inheritance and donation, increasing the efficiency of public spending. In addition, governments can alleviate income inequality by regulating the prices of consumer goods on which poor households spend a significant portion of their income.

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