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REDISTRIBUTIVE FUNCTION OF FISCAL POLICY AND THE INCOME INEQUALITIES AMONG THE SOCIETY

REDYSTRYBUCYJNA FUNKCJA POLITYKI FISKALNEJ A NIERÓWNOŚCI DOCHODÓW LUDNOŚCI

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Abstract: The article focuses on a redistributive function of fiscal policy in view of limitation of excessive income inequalities among the society. Owing to that, there is a description of the essence, meaning and goals of the redistributive function in the process of implementation of social-economic policy. What is more, there is a focus on the problem of income disproportions, their changes in Poland in 2004–2012 and the impact of the inequality on the stability and endurance of the economic growth. In conclusion, it was stated that redistribution of GDP, adequate to needs and condition of the economy, is able to reduce excessive income disproportions (mainly with the use of the taxation system) which negatively influence perspectives for the economic growth. The fiscal policy in this matter will be effective if, owing to its implementation, the stimuli to economic activity will not be weakened, what might be the case if excessive taxes in favour of income egalitarianism would be introduced.

Keywords: income inequalities, Gini coefficient, fiscal policy, redistribution, economic growth.

Streszczenie: W artykule skoncentrowano uwagę na redystrybucyjnej funkcji polityki fiskalnej w aspekcie ograniczania nadmiernych nierówności dochodowych w społeczeństwie. Omówiono istotę, znaczenie i cele funkcji redystrybucyjnej w procesie realizacji polityki społeczno-gospodarczej. Ponadto omówiono problem dysproporcji dochodowych, ich zmian w Polsce w latach 2004–2012 oraz wpływu nierówności na stabilność i trwałość wzrostu gospodarczego. W konkluzji stwierdzono, że adekwatna do potrzeb i stanu gospodarki redystrybucja PKB, głównie z wykorzystaniem systemu podatkowego, jest w stanie redukować nadmierne dysproporcje dochodowe, które negatywnie wpływają na perspektywy wzrostu gospodarczego. Polityka fiskalna w tym kontekście będzie efektywna, jeśli w wyniku jej realizacji nie zostaną osłabione bodźce do aktywności gospodarczej, co mogłoby się zdarzyć w przypadku nadmiernych podatków służących zbyt dużej egalitaryzacji dochodów.

Słowa kluczowe: nierówności dochodów, współczynnik Giniego, polityka fiskalna, wzrost gospodarczy.

1. Introduction

In each modern state, the public authority must have such instruments and financial resources in order to implement its policy, that will prove sufficient and optimum in relation to the needs as well as social and economic realities. These resources are collected in the course of fiscal policy using its tools. The essence of fiscal policy largely boils down to manipulating the amount of taxes paid by society and shaping the amount of the state expenditures. The term "tax policy" used in technical literature is an element of fiscal policy as its separate part due to the specificity of the means to implement it [Pietrewicz 1993, pp. 10–12].

With the participation of fiscal policy, a state (government) may affect the economic activity and promote the development of the country, both in the economic and the social sphere. A core set of fiscal instruments of economic impact of economic policy is the tax system by means of which the state, gathering the necessary funds for its proper functioning, may cause the occurrence of certain reactions on the side of the citizens and business entities. The tax system must be rationally built in order to make the behaviours of business entities desirable and not to cause excessive and negative disruptions of market mechanism through its distortion. For this reason, a good tax system shall encourage entrepreneurship and economic growth, while reducing and eliminating phenomena that are socially and economically harmful (e.g. high unemployment rate, recession, grey market or excessive income inequalities between citizens).

A research hypothesis assuming that income inequalities in Poland can be reduced by the use of fiscal policy instruments, mainly taxes, was proposed in this article. However, it is necessary to take care of rapid and sustainable economic growth, economic activity of enterprises and the growth of their competitiveness in a globalizing world economy. Without economic growth, there will be no relevant flows to the state budget, thus eliminating income inequalities in society within the framework of redistributive policy will be much more difficult. This article refers to deliberations, the objects of which are the role and the position of a state in the modern economy. Questions and problems connected with this issue in the fiscal sphere relate mainly to the impact of a state on economic processes and behaviours of entrepreneurs as well as the situation and the quality of life of citizens through taxes. The aim of this study is to present the essence of redistributive role of fiscal policy in terms of efficient reduction of income inequalities. In this context, the question concerning the level of inequalities, which is acceptable and neutral for the economy of a state functioning under free-market principles, is an up-to-date question. The issue is important due to the fact that neither the excessive inequalities nor too big egalitarianism do serve the economic growth. Sometimes it is so that a treatment for inequality, i.e. redistribution, may be worse for growth than the disease itself.

2. The essence and importance of redistributive role of fiscal policy

The role of the state in the economy and its impact on social and economic processes underwent a series of changes in the modern age, both in relation to the forms and the scope of impact as well as to the intensity of the impact of public authorities on the economy. Starting from the domination of mercantilism, through *laissez-faire*, state interventionism based on theories of Keynes to the neo-classical and neo-liberal ideas, from which the latter found their practical application primarily in the US economic policy at the time of R. Reagan and M. Thatcher in the United Kingdom. It is relevant to note here that state interventionism was meant to be a specific remedy for the imperfections of the market mechanism and a way to optimize the welfare, the aim of which was to achieve a higher level of social justice.[1]

In turn, theoreticians of neo-liberal provenience pointed to the need to: extend the market mechanism in economy and thus reduce the role of the state (with the exception of the areas where the market mechanism is more expensive); restrictive monetary policy; boost investments and stimulate entrepreneurship (through reducing tax burdens, tax incentives); pro-supply actions (through an increase in workforce productivity, investments); reduction of public expenditure.

In the technical literature, in addition to considerations regarding the scope and the form of activity of public authorities for the benefit of the economy, the basic functions of state finances are directly determined. Their task is to ensure: first, efficiency of the whole economy with the imperfections of the market mechanism for allocations (allocative function), second, justice and equality in the situation of an excessive income inequalities (redistributive function) and, third, stability of market economy with its cyclic functioning (stabilization function) [Samuelson, Nordhaus 2008, p. 88; Musgrave, Musgrave 1984, pp. 5, 6], whereas stabilization function covers the actions aimed at eliminating the negative effects arising from implementation of both allocative and redistributive functions.

The essence of redistributive role of state finances is its deliberate policy aimed at obtaining desired final shape of individual income distribution in society. On the basis of the practice of fiscal policy, a distinction can be made between three areas of the impact of the budget on income distribution in society. First area is a direct

[1] One of the measures proposed by J.M. Keynes, being at the disposal of public authorities, was redistributive policy of incomes (progressive taxation of high incomes, unemployment benefits, benefits for investors etc) and public investments financed from the state budget (public works). It should be particularly noted that, in accordance with the objectives of J.M. Keynes, a financing stream for public investments, in particular in the field of transport infrastructure and public utility facilities was to be the public debt, not the increase of tax burdens. The result of these actions was to achieve the objectives of egalitarianism in society, reduce the unemployment rate and decrease the fluctuations of the business cycle as well as to provide job security and adequate quality of both the products and the life in the wild (cf. [Sommers 1980]).

distribution of monetary income using a system of taxes and social cash transfers, covering various types of social benefits, which are in the interest of social policy. Second area of impact of a more indirect nature is a free (or only partially payable) satisfaction of the needs within the scope of social services (education, health care etc.).[2] And the third area of the fiscal impact with the most direct effect on distribution of incomes is the impact on conditions under which the primary distribution of incomes is shaped (e.g. expenditure on professional workforce training). The subject of the impact in this case is not the distribution of monetary incomes, but formation of starting conditions for market income distribution [Patrzałek 1994, p. 291].

The specific income situation of the state that do not directly generate any revenues, forces – to meet constitutionally defined functions and to raise expenditures – the necessity for redistribution of society's incomes using the attribute of power. Public economy is characterized by unpaid and compulsory acquisition of foreign funds, i.e. private business entities which unlike the public economy raise funds in the framework of free exchange and cooperation in the production process [Rybarski 1935, pp. 8–10; Gerloff 1952, p. 42]. Redistribution of incomes is implemented in the monetary firm and is made using a system of income transfers. These transfers are in the form of money flow between different entities and the state.

Redistributive role of state fiscal policy, due to the fact that through ensuring some benefits it violates – obviously – economic interest of some parties, raises a number of questions, doubts and concerns of an economic, social, political and ethical nature. Their essence boils down to determining the transparent and simple criteria of income redistribution for the citizens. These criteria have macroeconomic, macrosocial and individual dimensions. The basic criterion for redistribution of incomes based on macroeconomic and macrosocial concepts is such a scope (size) and such a structure that allows the economy to function in an undistorted way and the state to fulfil its public and social roles.[3]

Satisfaction of needs determined by the government, as well as long-term impact on market conditions of income distribution may be equally significant in eliminating differentiation in living standards in society, and therefore reduce the necessity of direct adjustment of cash income distribution. However, only the first, earlier described way of impact of the country with fiscal policy, i.e., direct adjustment of cash income distribution with use of taxes and social transfers, has a basic meaning in income distribution and is a proper tool of redistributive function of policy [Patrzałek 1994]. One may speak about income reduction through taxes and their

[2] Although these benefits do not change the allocation of monetary incomes, by making the level of satisfaction of certain needs dependent on monetary income, they have an impact on reducing actual differences in living standards.

[3] Macroeconomic aspect of income redistribution relates to the range of GDP redistribution and the general structure of income and expenditures realized by public authorities. Macrosocial dimension of the income redistribution is narrowed to the analysis of consequences of government's actions for different social groups [Owsiak 1999, p. 59].

supplementation by social cash transfers. The basic tool of such policy – besides budget expenditures, developed payment and price systems, social insurance contributions and other transfer payments and services within the health service and educational system – is above all taxation system.

Thus, the redistributive function of taxes means using it in distribution of income and national wealth between the tax payers and public and legal entities [Etel 2002, p. 27]. This function and appropriately developed taxation system lead to the GDP distribution, that means that the public authority having appropriate amount of money can realize different micro- and macroeconomic projects, through the national and self-government unit budget, which are within its domain (security and national defence, administration, goods and social services, etc.). Redistribution made by the taxation system is characterized by a wide subjective and objective range, as well as obligatory character. It covers the whole range of different subjects – from the social and private business forms to the population [Gajl 1992, p. 128]. The scale of national income redistribution is significantly determined by centralization level and economy concentration. This is related to the range and aims of budget expenditures. In western countries, there was a trend in thinking that the income should be adapted to public expenditures, which was a great difference from the rule that the expenditures should be adapted to income. As the time passed, this rule had been abandoned. The new one was introduced. It said that the income and budget expenditures are determined in accordance with so-called budgetary margin which connects the growth of tax income with the economic growth [Głuchowski 2006, p. 18].

Through the taxes, the financial resources are transferred in appropriate (or inappropriate) proportions between business entities and the budget, which results in income adjustment. Practical implementation of this function by the authorities influences the level of society and business entities income constantly. Taxation system significantly determines the range of self-financing and directions of enterprises activity [Gajl 1992, p. 129].

Application of appropriate tools for stabilizing the economic processes implicates also goods allocation and income redistribution, whereas a change of the structure or level of income and expenditures causes allocation and stabilization effects. There can be an equal occurrence of convergence and contradiction of fiscal policy objectives. It should be stated that what is necessary in economic practice is not a doctrinal approach to the state's tools influencing the economy, but a pragmatic one. Abandoning the fiscal allocation and redistributive tools for implementing them in economy stabilization would be a doctrinal mistake [Owsiak 1999, pp. 62, 63].

An example for objective convergence can be redistributive and stabilizing effects of public expenditures in form of transfer services. Their growth, which is a sign of implementation of redistributive function, increases the stability of individual income, and as a result, it reduces the level of economic vulnerability to economic cyclical fluctuations. Whereas an example for the conflict of objectives may be implications of implementation of redistributive function from the point of view of stabilizing tasks, since excessive redistribution scale causes the weakening of stimuli to work and income increase. Such a situation may occur in case of excessive tax progression [Pietrewicz 1993, p. 14].

3. Redistribution and income inequalities

Political transformation, social and economic changes and more and more visible globalization have not reduced the essence of the redistributive function of fiscal policy. This is why, it is still present and needed in new and developing economic reality, in particular when the level of inequalities in society is significant and might negatively influence the economic growth and living standards of citizens.[4] Income inequalities lead to higher criminality rates, falling social confidence, negatively influence the health and life expectancy of the society.

Income inequalities have different meanings for the stabilization of social--economic situation and the economic growth. The literature distinguishes three streams through which the inequalities in income distribution negatively influence the pace of economic growth [Mo 2000]:

1. Social-political stability – income inequalities lead to its increase. Instability causes also the increase in uncertainty in protection of property rights, what in turn reduces investments, productivity and leads to slower economic growth.

2. State's transfer expenditures – the higher income inequalities in society are, the higher expectations of the population towards the income redistribution are. The state's redistributive policy causes the distortion of market mechanism and negatively influences labour supply and weakens motivation for skills improvement stopping the economic growth.

3. Human resources – inequalities in income distribution negatively influence the creation of human resources. Learning requires incurring two types of costs: alternative cost in form of loss of earnings and direct costs of education. People with low income cannot afford such costs. Therefore, greater income inequalities negatively influence the accumulation of human resources and stop the economic growth.

Negative implications of income inequalities have been for years a subject of interest for many scientists. In the US, in 2009–2012, 95% of profits was given to 1% of population, what, according to J. Stiglitz, is a reason for falling dynamics of economic growth in the USA. Such a high level of income inequalities causes that it

[4] The factor depicting the level in which distribution of income differs from an equal distribution is Gini coefficient. Its value oscillates between 0 and 1, whereas the value equal to 0 implies the perfect equality (each person from a particular group gets for his/her work equal amount of money, regardless of the type of work), and the value equal to 1 means the perfect inequality in income distribution (one person from a particular group gets all income). In other words, the bigger is the value of the coefficient, the higher is concentration level, therefore, the higher are inequalities. Both extreme values, for the egalitarian distribution, as well as for extreme inequalities, are possible only in theory, since they have never appeared in observed income distribution.

is not possible for American economy to be boosted with consumption expenditures [Stiglitz 2012].

Regardless of race, the level of income inequality itself seems to play an important role in determining levels of social mobility. In places where income is divided very unequally, very few people manage to start at the bottom and end up at the top [Chetty et al. 2014]. Similarly, the results of IMF studies published in 2014 by economists J. Ostry, A. Berg and C. Tsangarides indicate that both in average and in long term of income inequalities, they have a destroying impact on GDP growth [Ostry, Berg, Tsangarides 2014].

With respect to inequality and growth, the statistical evidence generally supports the view that inequality impedes growth, at least over the medium term. researchers have looked at rates of growth over long periods of time (e.g, [Persson, Tabellini 1994; Alesina, Perotti, 1996]), the level of income across countries [Easterly 2007], and the duration of growth spells [Berg, Ostry, Zettelmeyer 2012], and have found that inequality is associated with slower and less durable growth. The few exceptions [Banerjee, Duflo 2003] tend to pick up ambiguous short-run correlations [Halter, Oechslin, Zweimüller 2010].

Inequality continues to be a robust and powerful determinant both of the pace of medium-term growth and of the duration of growth spells. It would still be a mistake to focus on growth and let inequality take care of itself, because the resulting growth may be low and unsustainable. For non-extreme redistributions, there is no evidence of any adverse direct effect. The average redistribution, and the associated reduction in inequality are thus associated with higher and more durable growth.

The problem of substantial inequalities refers not only to the US economy. According to the OECD data, the average disposable income of households around the world has not grown since four years and incomes of the poorest 10% of the population dropped by 1.6% in 2007–2011. The highly developed country with the greatest income disparities are the United States, where the Gini coefficient in 2012 reached the value of 0.389. Similar situation is to be seen only in Mexico, Chile and Turkey. For comparison, in Poland since the beginning of 90s of the 20th century it was observed that the Gini coefficient was falling and later, in 2004–2012, it dropped from 0.381 to 0.299 (see Table 1). It is still significantly higher value than in Belgium, the Czech Republic, Germany or Sweden.

Sources of income inequality can be explained in various areas, ranging from microeconomic analysis of productivity through macroeconomic interpretation of global conditions and analysis of local institutional factors. Studies show that the liberalization of the capital market slightly increases income inequality [Furceri, Loungani 2013, p. 26], while international trade reduces it.

In turn, technological development – foreign investment with technology transfer – increases inequality since it rewards people with higher education and skills (who already have higher incomes), and reduce the number of employees in groups of unskilled workers [Jaumotte, Lall, Papageorgiou 2013].

Table 1. Gini coefficients in Poland 2004–2012

	2004	2005	2006	2007	2008	2009	2010	2011	2012	Difference 2004–2012
Before taxes and transfers	0,570	0,523	0,504	0,490	0,474	0,469	0,470	0,466	0,393	–0,177
Post taxes and transfers	0,381	0,327	0,317	0,317	0,309	0,305	0,307	0,304	0,299	–0,082
Difference in p.p.	–0,19	–0,2	–0,19	–0,17	–0,17	–0,16	–0,16	–0,16	–0,09	–0,1

Source: [www.oecd.org].

When analyzing the economic implications of inequalities of income, one should keep in mind that we are talking here about uneven results as opposed to inequality of chances. The distinction between the two types of inequality is important from the viewpoint of methods of contradicting inequalities. According to the liberal economic thought, fair inequalities are those for which only the individuals take the responsibility through their individual decisions, preferences and abilities, i.e. those that are not determined by environmental conditions. Therefore, the disproportions will be socially acceptable if all individuals would have equal chances. Therefore, it is to be implied that disparities, which the society should care about, are inequalities of chances, not the results (e.g. income) [Roemer 2002].

This should be supported by redistribution of wealth, which gives everyone the same opportunities, but allows the inequalities resulting from different effort and preferences. The problem here, however, is the measurement of inequality of opportunity, and the fact that evening out the opportunities, in terms of management of scarce resources, may be wasteful [Risse 2002]. One should keep in mind also that some negative effects on the socio-economic development come from the inequality of results, and not from inequality of chances, thus ensuring sustainable socio--economic development, one cannot focus only on equal opportunities [Wade 2005, p. 34]. Certainly, limiting income inequality cannot come at the expense of modernization processes and separately from the challenges of international competition; therefore, it cannot be reduced to redistributive policies that strengthen demanding attitudes, limiting professional activity and self-responsibility. It must be remembered that in the long term, the excessive fiscal policy causes tax avoiding and tax evasion, which increases the share of the informal economy. Moreover, in the long term, excessive fiscal policy also leads to inhibition or even collapse of economic growth, which is confirmed by statistical studies [Gwarney, Stroup 1993; Rodriguez 2000].

High level of redistribution hurts growth [Okun 1975], as higher taxes and subsidies dampen incentives to work and invest. Losses are likely to be a rising function of the tax or subsidy rate, given the convexity of deadweight costs, with losses from redistribution minimal when tax rates are low but rising steeply with the tax or subsidy rate (e.g., [Barro 1990; Jaimovich, Rebelo 2012]. Admittedly very large redistributions may have direct negative effects on growth duration, such that the overall effect (including the positive effect on growth through lower inequality) may be roughly growth-neutral. However, after some point redistribution will be destructive to growth, and that beyond some point extreme equality also cannot be conducive to growth. The things that governments have typically done to redistribute do not seem to have led to bad growth outcomes, unless they were extreme. Even given these results about average effects, it remains important to try to make redistribution as efficient as possible. More unequal societies tend to redistribute more and lower net inequality is robustly correlated with faster and more durable growth, for a given level of redistribution [Ostry, Berg, Tsangarides 2014]. The evidence suggests that a tax rate on the order of 80% on incomes over $500,000 a year not only would not reduce the growth of the US economy but it would in fact distribute the fruits of growth more widely while imposing reasonable limits on economically use-less (or even harmful) behavior. Obviously it would be easier to apply such a policy in a country the size of the United States than in a small European country where close fiscal coordination with neighboring countries is lacking [Piketty 2014, p. 513].

Polish taxation system effectively eliminates disparities in income redistribution, if one takes into account the data on the formation of the Gini index. Also, according to calculations by J. Gornick, Poland in comparison to developed countries is about half the distance between Switzerland and the social liberal United States [Gornick, Jäntti 2013, p. 269–271]. If the calculations would not take into account taxation, we would be a leader in the disgraceful ranking of countries with the greatest inequalities. The difference in the Gini index before and after taxes and transfers indicates that the redistributive function of fiscal policy had the greatest impact on the reduction of income disparities in 2004–2006, while the smallest in 2012 (see Table 1). Is that a good enough argument for the high, progressive taxes? Certainly, not too high and too progressive taxes (and quasi-taxes), due to certain increase in the tax wedge[5] and highly probable growth of the informal sector of economy.[6]

The scale of redistribution because of public finance system – understood as the ratio of total public sector expenditure to GDP – is not small (see Table 2). Given the international data, it can be concluded that the level of redistribution in Poland is at a level similar to countries of the European Union and the OECD, but in assessing the scale of redistribution, one cannot disregard its historical and current conditions. As the data in years 2004–2014 show, the level of public sector expenditure to GDP decreased by almost 2 percent points, and the highest level was recorded in 2009––2010, a period of the peak of economic crisis.

[5] In 2000, the tax wedge in Poland amounted to an average wage almost 38.2% and in 2012 35.5%. For comparison, the average rate for OECD countries fell during this period from 36.7 to 35.7% [*Taxing Wages*…].

[6] According to the research of Prof. F. Schneider the size of the shadow economy in Poland in 2012 amounted to approx. 24.4% of GDP (in 2000 it was 27.6%), while the average for OECD countries is 16.1% (in 2000 it was 19.1%) [Schneider 2013].

Table 2. Total general government expenditure in Poland 2004–2014 (as % GDP)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
43,7	44,4	44,7	43,1	44,4	45,2	45,9	43,9	42,9	42,2	41,8

Source: Eurostat [http://ec.europa.eu/eurostat/data/database].

Certainly, there is a level of GDP redistribution, appropriate to the character of a particular country whose reduction becomes a threat to the proper functioning of the state and fulfilling its tasks. In Poland, the condition for decline in income inequality, but at the same time, the acceleration of economic growth, is reduction of the tax burden. Without a doubt, the first step must be to change the structure of government expenditure with a significant reduction of social expenditures in favor of greater share of pro-development and pro-effective expenditures from the point of view of the economy and competitiveness improvement. Any "losses" arising from the practical implementation of the redistribution function should always be minimized, and profits made by the state from tax revenue must be reduced to the optimal range, dictated by the need for income to cover the expenditures related to necessary public needs.

In recent years, due to the excessive debt of public finances, greater responsibility for the increase in aggregate demand, elimination of unemployment and economic growth was transferred to monetary policy. Too much burdening the central banks with the artificial stimulation of economic growth by lowering interest rates almost (or even) to zero, or non-standard measures such as quantitative easing implies negative effects. This approach implicitly favors the rich, who have more than proportionate share of financial assets and may, through the phenomenon of tax competition, optimize their tax obligations and make so-called relocation of business activity (see [Sosnowski 2014]). As a result, in most countries, there is a triad of inequalities – inequalities of income, wealth and opportunities. In affluent households, in comparison to the poorer ones, smaller part of income and wealth is allocated to the expenditures. Larger inequalities are translated into a lower level of general consumption, which suspends recovery in countries whose economy is already impeded by insufficient aggregated demand. The high level of current inequalities also inhibits the structural reforms needed to boost productivity, and at the same time undermines efforts towards assets that are still held by excessively indebted people. If these inequalities will not be adjusted through reasonable redistributive measures within fiscal policy (taxes and transfers), these inequalities will be mutually reinforcing, which has far-reaching consequences. Inequalities are beginning to threaten economic growth, investments, employment and prosperity, rather than be an incentive for hard work and innovation. In normal times, fiscal policy supports monetary policy, including through its redistribution role [El-Erian 2014].

It is worth to pay attention to the views presented by V. Tanzi and H.H. Zee, according to whom fiscal policy should be equally favourable to reduction of macroeconomic instability in the short term and growth in the long term, particularly by increasing the degree of neutrality of the tax burden, promoting the accumulation of human resources and reducing excessive income disparities. The negative impact of frequent changes in the tax system is clearly noticeable, and it results in increasing uncertainty in investment conditions, thereby limiting them [Tanzi, Zee 1997].

4. Summary

The state, assuming that income distribution is shaped by a market mechanism, shows too great diversity, makes its adjustments by imposing a tax on income and property resources. The level of citizens' acceptance of for further use of redistributive tax function depends only on rational behavior of a public authority in such a socially sensitive matter, concerning both the collection and the subsequent redistribution of part of the citizens' income. Determination of the size of the taxes amounts that goes to the state budget and local government units, and thus not at the disposal of those who developed these revenues, it is just a matter settled by the authorities of the country concerned. The state can intentionally shape the tax structure so that reactions are consistent with its intent. This takes into account aspects such as: the protection of a minimum level of income, family situation of the tax payer, the structure of his/her expenses, sources of income etc. [Litwińczuk (ed.) 2008, p. 16]. In this way, the state introduces – in place of the direct method of interfering in the process of managing or investing – the method of parametric-economic impact on tax payers. This transfers the decision about choosing the direction and size of expenditures towards the taxpayers [Andel, Haller 1980, p. 124].

The difference in opinions in terms of taxation results *inter alia* from the fact, that the influence of the state on such a sensitive matter, which is the economic system and the course of its phenomena, requires from the public authorities very precise and yet flexible and dynamic actions – adequate to the current situation. The consequences of such interventions are mostly not certain and, as previously mentioned, are generally associated with incurring large expenses. It is also the matter of the fact that "healing" through redistribution the negative effects of free market processes, i.e. the excessive and socially unacceptable income inequalities, cannot induce effects, which are worse than the disease, i.e., it cannot suppress economic growth and destabilize the economy.

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