

Financing the Welfare State and the Politics of Taxation

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- The cost of the welfare state: determinants of social expenditure
 - the extension of social rights
 - the growth of needy populations
 - the demographic context has an impact on the social protection system's dependency ratio
 - economic factors such as employment levels
- Sources of revenue and modes of financing
 - Social contributions – paid by employers and/or employees
 - Taxes – direct and indirect
 - Other sources
- The source of financing is usually related to the characteristics of the benefits

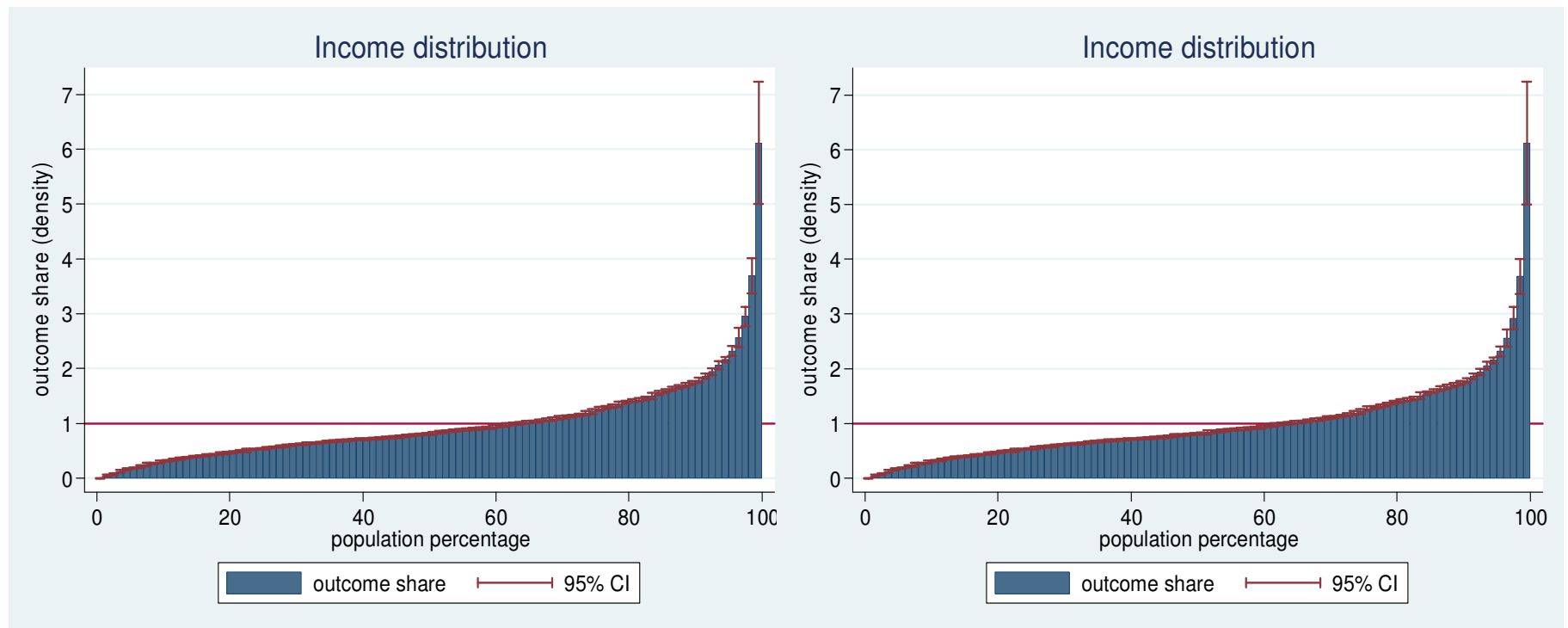
- Politics of Taxation and redistributive impact
 - Progressive taxation
 - Increase in social contributions

Using MK-MOD – tax and benefit micro-simulation model , we simulate the effects of the personal income tax reform on poverty, inequality and the collected funds

Effects of progressive taxation

	Before the reform	After the reform
Gini coefficient	36.44%	36.38% ↓
S80-S20	7.73	7.70 ↓
S80-Middle class	2.63	2.62 ↓
Middle class-S20	2.93	2.93
Top 1% share	6.12%	6.12%
Top 5% share	17.60%	17.59%
Relative poverty rate (below the 60th percentile of the median)	20.97%	20.97%
Absolute poverty rate (under \$1.9/day in 2011 PPP, %)	1.21%	1.21%

Distributive effects



Development indicators in case of personal income tax reform and social assistance reform

	Before the reform	After the reform
Gini coefficient	36.44%	35.14% ↓
S80-S20	7.73	6.20 ↓
S80-Middle class	2.63	2.64 ↓
Middle class-S20	2.93	2.35 ↓
Top 1% share	6.12%	6.04% ↓
Top 5% share	17.60%	17.40% ↓
Relative poverty rate (below the 60th percentile of the median)	20.97%	18.64% ↓
Absolute poverty rate (under \$1.9/day in 2011 PPP, %)	1.21%	0.00%

Exercise

- 6 groups, 1 per country
- Identify current taxation system
- Identify current needs for welfare provisions
- Define optimal way of financing welfare state