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PRACTICAL EXPERIENCE IN COMPETITIVE TAX SYSTEM DEVELOPMENT

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Currently, the problems of increasing competitiveness, which are being studied by scientists from all over the world, are of utter relevance. The article examines the content of such a large-scale phenomenon as competitiveness of the state with consideration of the tax system competitiveness, identifies the concepts characterizing the definition of the competitiveness essence in the light of the key parameters, all of them being components of competitiveness. The key factors of the modern, mainly technological, competitiveness of the tax system are studied. The article highlights the views in respect of the factors determining the level of competitive advantages held by the economic schools' representatives, who put forward various suggestions concerning the measures to be taken to strengthen competitiveness within the country, which is a player in such competition. The following unresolved issues are identified, namely: the factors influencing the competitiveness level of the tax system; the ways to solve the problems of increasing the competitiveness of economic systems; distinguishing the country's competitive advantages. The author suggests the definition of the essence of the concept "competitiveness of the state" as an ability to ensure the stability and transparency of state and non-state institutions' activities within a long term based on the generally accepted international standards and rules, ensuring fundamental rights and freedoms to citizens, guaranteeing property rights and performance of duties in order to obtain competitive advantages in foreign markets. The institutional conditions for ensuring the tax system competitiveness are suggested, and its key characteristics are given.

ПРАКТИЧНИЙ ДОСВІД ФОРМУВАННЯ КОНКУРЕНТОСПРОМОЖНОЇ ПОДАТКОВОЇ СИСТЕМИ

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Ключові слова:
конкурентоспроможність системи оподаткування, концепція, перевага, характеристики, недоліки, небезпека, чинники, практичний досвід, чинники, фактори

Встановлено, що на сьогоднішній день, проблеми підвищення конкурентоспроможності є актуальними та досліджуються вченими в усьому світі. Досліджено змістовне наповнення такого місткого явища, як конкурентоспроможніть держави з урахуванням конкурентоспроможності податкової системи, виокремлено концепції, які характеризують визначення сутності конкурентоспроможності через призму ключових параметрів, всі з яких є складовими конкурентоспроможності. Досліджено ключові чинники сучасної, переважно технологічної, конкурентоспроможності податкової системи. Виокремлено погляди на фактори, що визначають рівень конкурентних переваг представниками економічних шкіл, які висувають різні пропозиції щодо того, які заходи необхідно вживати для зміцнення конкурентоспроможності в межах країни, що є суб'єктом такої конкуренції. Виокремлено невирішені проблеми: фактори впливу на рівень конкурентоспроможності податкової системи; способи вирішення проблем зростання конкурентоспроможності економічних систем; виокремлення конкурентних переваг країни. Запропоновано авторське визначення сутності поняття «конкурентоспроможність держави» як здатність у довгостроковій перспективі забезпечувати стійкість і прозорість діяльності державних та недержавних інститутів на засадах загальноприйнятих міжнародних

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стандартів і правил, забезпечуючи фундаментальні права й свободи громадянам, гарантуючи права власності та виконання обов'язків з метою здобуття конкурентних переваг на зовнішніх ринках. Запропоновано інституційні умови забезпечення конкурентоспроможності системи оподаткування та надано ключові її характеристики.

Analysis of recent research and publications

There are two opposite approaches to understanding the essence of competitiveness at the state level, which are of significance in the scientific community.

Being a well-known opponent of the national competitiveness concept, P. Krugman in his article *«Competitiveness: a Dangerous Obsession»* [1], and later in his book *«Pop Internationalism»* [2] harshly criticizes this concept as well as the politicians who use this concept to distract attention from the real causes of economic problems in the United States.

The logic of Krugman's theory is based on two main arguments. First, what is called competitiveness by business experts is actually productivity. Various definitions of competitiveness given in the first section of his paper indicate the difficulties in defining this concept. In addition, in scientific articles and international institutions' reports, competitiveness is often identified with the productivity of factors. This is clearly seen in the approach proposed by the World Economic Forum, i. e. forecasting growth potentials. Recent developments in the theory of economic growth still consider the productivity of factors to be a key indicator in the long-run prospect. Second, the concept of competitiveness emphasizes the importance of confrontation between the players, and thus does not promote cooperative behavior. This contradicts the main conclusions of the international trade theory, where relations are based on common interests of countries. This confrontation can become dangerous and paradoxical if the emphasis is placed on the rivalry of states in economic relations, given the development of globalization processes.

According to Krugman [1], it is impractical to distinguish the definition of «competitiveness of the state». He argues that competitiveness only manifests itself at the micro level, where enterprises supply goods/services to both domestic and foreign markets, and therefore it is enterprises rather than the state that participate in the competition. Krugman also believes that it is quite difficult to determine the level of the state's competitiveness, but it is quite simple to assess the level of enterprises' competitive positions by comparing the income received and expenses incurred, determining the size of losses and debt. In his research, it is emphasized that it is only enterprises that produce goods for sale in the foreign market, whereas countries are partner-oriented in relations with other states.

Another approach can be seen in M. Porter's *The Competitive Advantage of Nations*, where he analyzes the economic foundations of national competitiveness [3]. In his paper, Porter starts with the «classical» definition of national competitiveness, as the share of goods in the market manufactured by a given country.

It should be noted that in this regard, mercantilists consider international trade to be a «zero-sum game», since an increase in the market share in one country simultaneously means a decrease in the share of another country, and historically, the task of increasing the market share has been too often used to justify industrial subsidy policies and optimize the cost of labor in order to stimulate exports. This approach neither takes into account the aspirations to improve the population's well-being, its intellectual and innovative potential, nor corresponds to modern approaches to determining the essence of competitiveness of nations globally.

At the same time, Adam Smith considered international trade as an activity bringing gains to all partners. Yet in 1776, in his work *The Wealth of Nations*, he described the law of the «invisible hand» of the market and noted that through individual well-being, advantages are achieved at the national level. According to Smith, ensuring competitiveness provided for minimal interference of governments in economic processes, where each economic entity makes a share of the national wealth [4].

At different times, some well-known economists also made their contribution to the development of understanding the competitive advantages of nations in international trade and competition for the production factors [2; 4; 5; 6] by developing the approaches to understanding such a complex phenomenon as competitiveness of nations: from the theory of comparative advantages, which was later developed by the Swedish economists in the Heckscher-Ohlin model, to the models, which considered the need to redistribute a nation's wealth through taxation (the Stolper and Samuelson's Theorem), approaches to equalization of factor prices and capital flows, influence of capital and labor (Leontief's paradox), cyclicality (commodity cycle hypothesis), scale and size of markets (trade modeling based on increasing returns to scale by P. Krugman and K. Lancaster), etc. All these approaches have developed an understanding of international competition at the micro and macro levels, defining the role of the state in ensuring competitive advantages. However, none of these theories solely can fully explain the complex processes of today. The economic processes inherent in modern international relations are much more complicated than they were even 50 years ago, which requires further scientific research on the role of the state in ensuring competitive advantages of the economic system, and the role of individual components of competitiveness in its overall rate.

For a long time, it has been widely stated in scientific and expert circles that the lower cost of labor increases the competitiveness of the state. However, Michael Porter believes this approach is fundamentally wrong and considers reduction in labor costs to be a disadvantage, despite the fact that subsidizing adversely affects national income and distorts market dynamics, distracting market forces from the most efficient natural opportunities for using resources. He suggests that national competitiveness should be determined through living standards and levels of national welfare. That is, economic system competitiveness increases when a nation's living standard as well as material and living supplies available to population increase. A nation's standard of living is determined by productivity of its economy, which is measured by the value of goods and services produced per unit of the nation's human and other resources. Thus, true competitiveness of a country is measured by the productivity of its economy, which allows the nation to achieve a high level of remuneration and an attractive rate of return to capital – and with them a high standard of living [3].

According to Porter, productivity of economy is determined by productivity of individual companies. Thus, the efficiency of a nation's economy is determined by the efficiency of its economic entities, which provides for two components: the level of sophistication of the existing economic entities; the quality of the microeconomic (business) environment.

Porter conceptually presented the quality of companies' business environment in the form of diamond, which involves four interrelated areas: factor conditions that is specific elements (e. g. skilled labor or infrastructure) necessary for successful competition in this industry; quality of demand: demand in the domestic market for these products, level of customer requirements for the quality and complexity of products; related supporting industries: availability (absence) of related industries that support their competitiveness in the world market; quality of companies' strategic management, rivalry [7; 8].

Results and Discussion

The macro-level factors presented, in particular, in the above concept of the global competitiveness index remain outside the scope of the concept of competitiveness and the list of its factors. Porter agrees that macro-level factors affect a nation's competitiveness significantly. However, improving the quality of macro-level factors is a necessary but insufficient condition for the growth of national wealth, which is created at the level of microeconomics [3].

In this context, Yu. Polunieiev presents an interesting opinion arguing that a nation's competitiveness cannot be identified with competitiveness of companies, enterprises, regions, and these are interrelated concepts as there is no nation's competitiveness without competitiveness of enterprises. The author also states that a nation's competitiveness affects its population's standard of living, allows regulating internal and external processes for enterprises development for the purpose of manufacturing high-quality goods, providing services in accordance with the existing needs, which will increase competitive positions in the international market, raise the population incomes. Polunieiev concludes that a nation's competitiveness is a socio-economic category, which considers the level of state resources, determines the amount of available capital, and reflects the internal and external factors of influence [9, p. 190–196].

We cannot but pay attention to the research by Zhalilo et al [10], who identify several approaches to interpreting the state competitiveness essence, namely: competitiveness is aimed at improving the life of society, effective and balanced use of labor and material resources, with the state obliged to establish social and budget programs; the state should be responsible for the level of competitiveness gained, since competitive advantages are achieved on condition of using economic policy levers, mechanisms for adjusting business entities' activities, reducing influence of the external and internal environment factors, which enables economic development improvement; the level of competition depends on business entities' activities, and especially on the socio-economic development of the state; the premises for competing in the international market are strengthening competitive positions and enhancing the competitiveness level in the domestic market; the basis of the state's competitiveness is increasing profits of economic entities as well as manufacturing goods with consideration of the international community needs [10, p. 13–20].

The authors' approaches differ in the content of such a capacious phenomenon as competitiveness of the state; however, these approaches should be distinguished in the concepts that characterize the authors' attitude to determining the essence of competitiveness in the light of the key parameters, all of them being competitiveness constituents.

It is established that K. Nazirov [11, pp. 46–51] suggested a conditional division of the concepts of a nation's competitiveness, which allows us to determine the essence of this category, mechanisms for competition implementation, factors influencing the national economy development. Among the main concepts of a nation's competitiveness there are as follows (Figure 1).

In our opinion, competitiveness of the state is its ability to ensure, in the long run, the stability and transparency of state and non-state institutions' activities based on generally accepted international standards and rules, guaranteeing fundamental rights and freedoms to citizens as well as securing property rights and performing duties in order to gain competitive advantages in foreign markets (Figure 2).

If we consider this issue in global economic processes from the standpoint set out by M. Porter, such provision is an important task of a nation's economic policy (including Ukraine) for the years to come. Globalization and the limited production factors force countries to compete with each other and take measures aimed at attracting owners of production factors by developing an optimal combination of public goods and tax preferences. According to K. Shvabii, a significant feature of today is high mobility of the factors of production, which are important objects of taxation in many countries of the world. Thus, tax policy is turning into a significant factor in competition for limited production resources, and therefore the requirements for its content and quality are constantly increasing. In the modern world, only the state that is able to establish and implement a consistent, transparent and competitive (attractive for economic agents) tax policy will receive benefits and advantages from a growing scale of globalization [14].

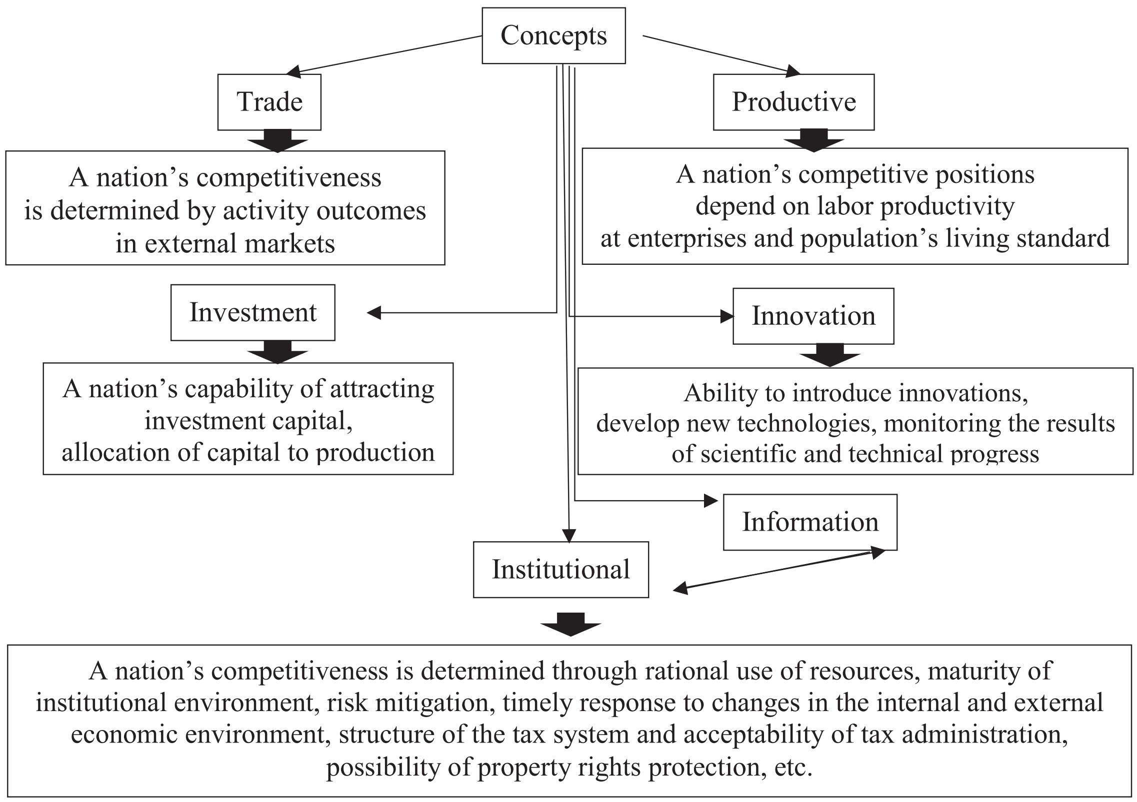

Fig. 1 – Types of the concepts of a nation's economy competitiveness

Source: developed by the author on the basis of [11, p. 46–51; 12]

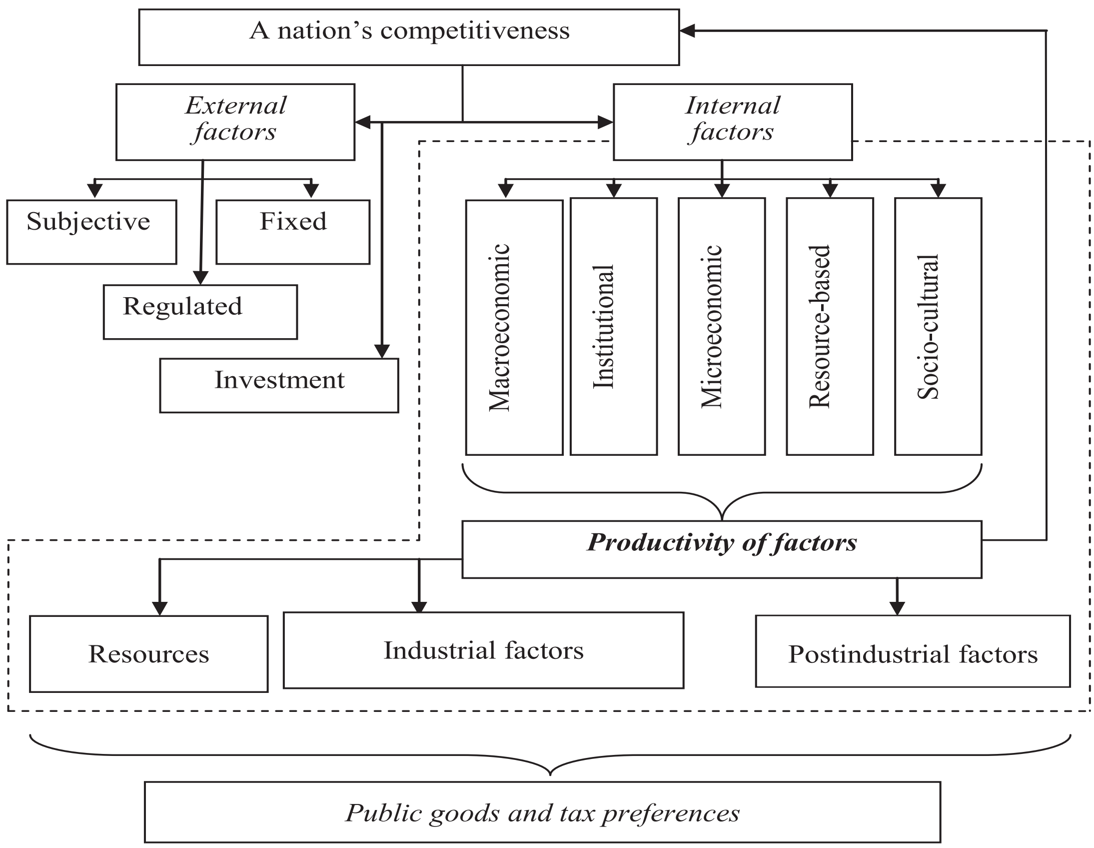

Fig. 2 – Factors of a nation's competitiveness and competitive potential of national economy

Source: compiled by the author on the basis of [13]

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According to Porter [3], government plays the role of catalyst and initiator of any changes. However, despite the obvious nature of the problem, scholars are not alone in addressing the issue of whether the concept of competitiveness applies to nations. Here it is necessary to take into account the views of economists who consider competitiveness of the state to be an independent category.

There is a certain amount of truth in each of the given viewpoints. In the modern world economy, there are both the elements of imperfect competition that adversely affect the ability of national goods to enter world markets (supply theory) and the dependence of competitiveness on the exchange rate, which, in turn, is associated with a state budget deficit (monetarism). At the same time, such basic factors as production efficiency and state regulation of market mechanisms for resource allocation (structuralism) have a crucial influence on competitiveness. Probably, monetarists have approached the truth closer than others, if we consider the problem in the short run. However, in the long run, structuralists are most likely to be right arguing that market mechanisms alone do not work when it comes to determining promising areas of scientific and technological progress and structural changes in the economy.

It is established that countries with high levels of competitiveness can better manage their economic and human potential [15]. Thus, the competitiveness of a country is interpreted as the ability to create more wealth annually than its rivals [16].

Conclusions

In their strategic plans, the world's leading countries do not focus on strengthening their competitive positions in a certain area, but attempt to comprehensively fulfill the tasks of developing their national economies, with the competition outcomes to be an increase in the population's standard of living in compliance with international environmental standards. The competitiveness of nations is determined by a reasonable strategy for optimizing the sectoral structure of national economies, given the long-term geo-economic prospects.

Based on the study of practical experience in the development of a competitive tax system, it is proved that the balance in the field of taxation is ensured by the relationship of the legislative and regulatory framework, which is a formal institution, and the current stereotypes of behavior, norms and rules that reflect informal standards of tax relations, which can change affected by external and internal factors.

At the same time, the institutional conditions for ensuring the competitiveness of a tax system, in our opinion, depend on the following key characteristics:

− regulatory framework for taxation;
− structure and regulation of fiscal service bodies' work;
− conditions and procedures for tax administration;
− methods of tax control;
− economic conditions and economic policy;
− forms and methods of international cooperation in the tax field.

They significantly affect the competitiveness of the state in general and tax system in particular.

Consequently, competitiveness of the state depends on the effectiveness of its tax system, availability of competitive advantages, and the current tax policy. Therefore, in general, an increase in competitiveness of the state is possible on condition of the tax policy regulation, improvement of the tax system, meting fair competition conditions, adaptation to the international market requirements, and strengthening of enterprises' competitive position, which plays a significant role in establishing economic and political stability, and restoring investment activities.

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