

Budget Constraints and Expanding of Non-Governmental Organizations Participation in the Implementation of State's Social Policies

Arsen A. TATUEV

Kabardino-Balkarian State University named after Kh.M. Berbekov
Nalchik, Russian Federation
arsen.tatuev@mail.ru

Murat A. KEREF OV

Kabardino-Balkarian State University named after Kh.M. Berbekov
Nalchik, Russian Federation
mkerefov@gmail.com

Nataliya I. OVCHAROVA

Surgut State University
Surgut, Russian Federation
ovcharova_natali@inbox.ru

Maria L. VILISOVA

Don State Technical University
Shachty, Russian Federation
villisbrus@mail.ru

Renata A. SHIBZUHOVA

Kabardino-Balkarian State University named after Kh.M. Berbekov
Nalchik, Russian Federation
rrr_77@rambler.ru

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Abstract:

Nowadays, the implementation of state's social policies becomes critically urgent in the context of social development for all countries of the world. For a number of objective reasons, the state is forced to reduce its obligations to a certain extent in the social sphere in such a way as to avoid hampering the markets development. The objective of the current study is to identify the priorities of modern public administration. The structure of budget expenditures demonstrates shifting to national defense, social policy and national economy with lower health-care and education spending. At the same time, the use of tax system as a resource for meeting the State's social obligations is increasingly constrained.

Keywords: budget; budget resources; social policy; non-governmental organizations.

JEL Classification: H61; H68.

Introduction

At present, the implementation of state social policy becomes critically urgent in the context of social development for all countries of the world. Certainly, each country has its own range of problems in this field, but these problems are of top priority everywhere. Insufficiently high level of the population's well-being, migration contradictions, formalization of many issues requiring individual approaches, disproportionate growth of expenses on bureaucratic apparatus provoked a flood of criticism from the civil society directed at state structures. However, for a number of objective reasons such as limited budget resources and an increase in prices of many technologies related to the social sphere, the state is forced to reduce

its social obligations to a certain extent in order not to impede the development of markets. Therefore, the question of search and definition of new challenges of fiscal policy becomes more and more discussed in the scientific community (Tatuev, Shash, and Borodin 2013). At the same time, the complexity of problems under consideration must be taken into account, as the uniform understanding of the modern state and its functions has not yet been worked out. Of course, we must consider the Montevideo Convention (1933), that highlighted the four main qualifications of the state: a permanent population, defined territory, a government of its own, the capacity to enter into relations with the other states (Kudinov 2014).

1. Methods

Based on general economic, statistical and analytical methods, the analysis of modern systemic problems related to the dynamics of the Consolidated Russian budget incomes, the fiscal burden on the national economy, the profitability and efficiency of entrepreneurial activity has been undertaken.

2. Results

2.1 Budget System as a Tool of Implementing Public Policies

In our opinion, the greatest present challenge consists in growing importance of social development which is closely related to both state organization and budget policy. It has to be noted that the social component helps to effectively even out the most diverse social and economic contradictions through the principles of priority protection of the vulnerable population interests. This principle guides the formation of the most important system compromise in uniting groups of different social status into a single community, which is the basis of the modern state. However, the state social activities became widely accepted in developed and developing countries only towards the end of the 20th century (Monusova 2012).

Modern social policy directly affects the production and provision of social benefits in accordance with the volume and structure of the population needs. The main attention of the state is increasingly focused on the use of many regulatory, economic, financial, socio-psychological, organizational, technical, information and other instruments. Nowadays, the conditions have been created for every person to have an opportunity to take an active part in maintaining his/her own and public welfare. In this context, the state, firstly, ensures the recovery of a part of primary income through the establishment of various taxes, insurance and other mandatory payments. Secondly, the state sets the minimum size and other parameters of wages, defines the income sources for incapacitated persons, and forms funds for various social programs (Romanko 2014).

Thus, a number of centralized monetary funds are being implemented and used by the state to carry out social policies, which affect not only the redistribution of income between different segments of the population, but also the development of individual sectors, as a rule, directly producing social goods - general and vocational education, health recovery, accommodation and transport, preservation of the environment, etc. As a result, the modern state functions as an ordering customer and producer of specific public goods.

The budgetary system is the main element of state policies implementation.

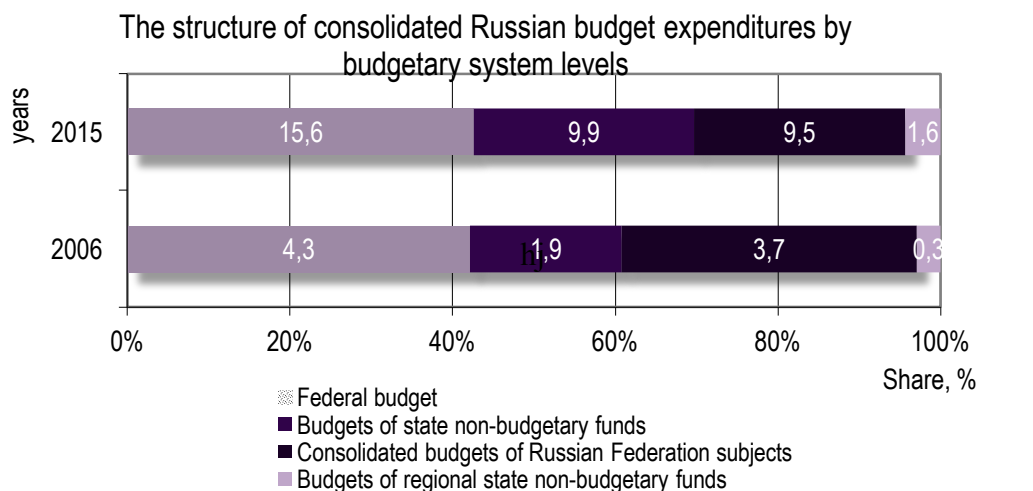


Figure 1. The structure of consolidated Russian budget by levels of budgetary system (the chart is based on: Consolidated budget of the Russian Federation and budgets of state non-budgetary funds. Russian Federal Treasury: official website of the Russian Federal treasury)

At the same time, the structure of the Russian consolidated Budget expenditures by levels of the budgetary system (Figure 1) clearly shows that it is centralized. Thus, a significant part of the total expenditure falls on the Federal Budget of the Russian Federation, in which a significant amount is allocated by various kinds of transfers and subventions to the lower levels of the budgetary system. In 2015, it amounted to 42.7% (15.6 trillion rubles) of the total Consolidated Budget expenditure. At the same time, the share of the consolidated budgets of the constituent entities of the Russian Federation accounted for only 25.9% (9.5 trillion rubles) of the total expenditure of the Russian budgetary system in 2015. The budgets of state non-budgetary funds accounted for a little more - 27.1% (9.9 trillion rubles). And the share of the regional non-budgetary funds received only 4.4% - 1.6 trillion. rub. Attention is drawn to the fact that the share of state and regional non-budgetary funds has increased over the last 10 years, and the Consolidated budgets of the RF subjects have experienced a similar reduction, with the unchanged share of the federal budget.

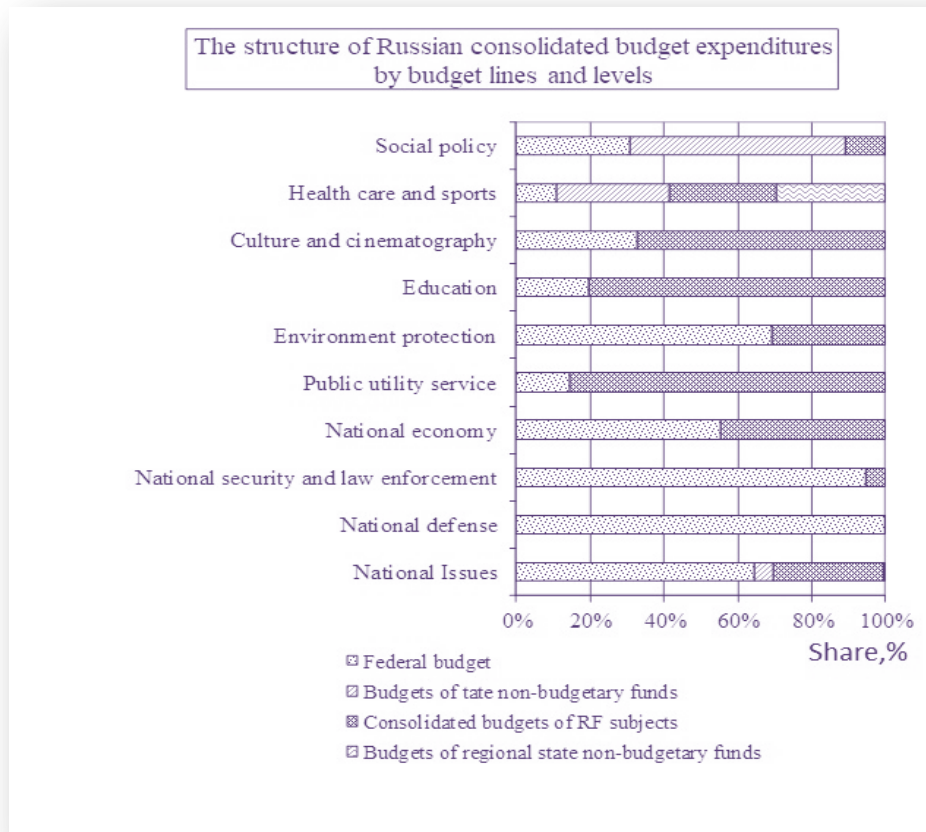


Figure 2. The structure of Russian consolidated budget expenditures by budget lines and levels (the chart is based on: Consolidated budget of the Russian Federation and budgets of state non-budgetary funds. Russian Federal Treasury: official website of the Russian Federal treasury)

If we consider the allocation of budgetary expenditures by levels of budgetary system (see Figure 2), it becomes clear that the budget lines 'National Defense' and 'National Security and Law Enforcement' are almost 100% financed from the Federal Budget of the Russian Federation. 'Public utility services' and 'Education' by 85% and 80%, respectively, are financed from the Consolidated budgets of the Russian Federation subjects. 60% of the budgets of state non-budgetary funds go to 'Social policy' financing. The 'national economy' is financed half from the Federal Budget and half from the Consolidated budgets of Russian Federation subjects. 'Environmental Protection' is financed by 2/3 from the Federal Budget of the Russian Federation and by 1/3 - from the Consolidated budgets of the Russian Federation subjects. 'Culture, Cinematography', on the contrary, receives 2/3 from the Consolidated budgets of the Russian Federation subjects and only 1/3 - from the Federal Budget of the Russian Federation. 'Health care and sports' is only 10% financed from the Federal Budget of the Russian Federation, and the remaining 90% are divided equally (30% each) among the other three levels of the budget system.

This dynamic reflects the priorities in State governance. So, the key priority is the stable increase of the state budget system expenditures. On average, they increased by 4.6% per year over the period under review. At the same time, it is

evident that the priorities shifted towards financing national defense, social policy and the national economy, and the funding for health care and education is reduced.

At the same time, tax system potentialities are a limited resource for the implementation of the state's duties. Excessive tax burden in the context of modern economy globalization contributes to the migration of capital and labor. In addition, a high level of taxation stimulates the development of the shadow economy. According to various estimates, the shadow sector in the world economy reaches 5-10% of GDP, and when the shadow sector reaches a share of 40-50%, it turns into the main factor that determines the trends of socio-economic development. In 2014 – 2015 the Russian shadow economy employed about 20% (15 million people) of the able-bodied population (Fedotov 2015).

2.2 Modern Methods for Calculating the Allowable Tax Burden on the Economy

There are different approaches to the identification of the allowable tax burden on the economy. For example, M. Feldstein, a well-known US economist in the field of taxes and budget, justified the income tax rate at 42%. B. Bradley, and R. Gephardt, authors of the well-known draft of American tax reform, proposed a maximum level of income tax of 30-35%. M. Friedman, a well-known American economist, a supporter of the free market, suggested that the limits of taxation cannot exceed 25% (Penukhina, Belousov, and Mikhailenko 2012; Panskov 2015; Senchenko 2015).

The simplest way to evaluate the tax burden on the economy is to calculate the share of taxes in the volume of GDP. If it is estimated at 10-15%, then the tax burden is considered low. If the share of taxes in GDP reaches 20-35%, then the tax burden is considered moderate, and if the share of taxes in GDP reaches 40-50% or more, the tax burden is considered high, and its impact on the economy is deleterious (Pospelov 2014; Roschupkina 2016). The share of taxes accounts for about 2/5 of the total Russian budget revenue (Figure 3), including the value added tax (VAT) - 15.7% (4.2 trillion rubles), personal income tax- 10.4% (2.8 trillion rubles.), income tax - 9.7% (2.6 trillion rubles.), excises - 4.0% (1.1 trillion rubles.). At the same time, it should be borne in mind that the specifics of revenues and expenditures of the state budget expands the sense of tax burden, since the budget revenues are provided at the expense of not only tax revenues, but also other obligatory payments (Garaev 2016; Kosenkova, Turbine, and Vladimirov 2015).

The structure of Russian Federation consolidated budget revenue

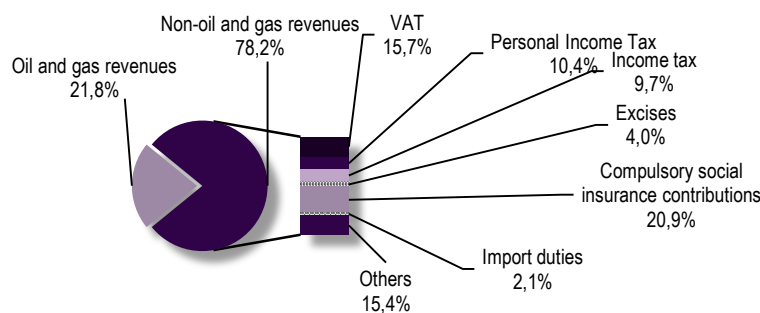


Figure 3. The structure of Russian Federation consolidated budget revenue in 2015 (the chart is based on the data of: Consolidated budget of the Russian Federation and budgets of state non-budgetary funds. Russian Federal Treasury: official website of the Russian Federal treasury)

In particular, 21.8% (5.9 trillion rubles) of the Consolidated Budget revenue are earned from oil and gas sales. The share of compulsory social insurance contributions accounts for another 20.9% (5636.3 trillion rubles). The share of import duties amounts to 2.1% (565.2 trillion rubles.). Other revenues account for 15.4% (4,148.8 trillion rubles).

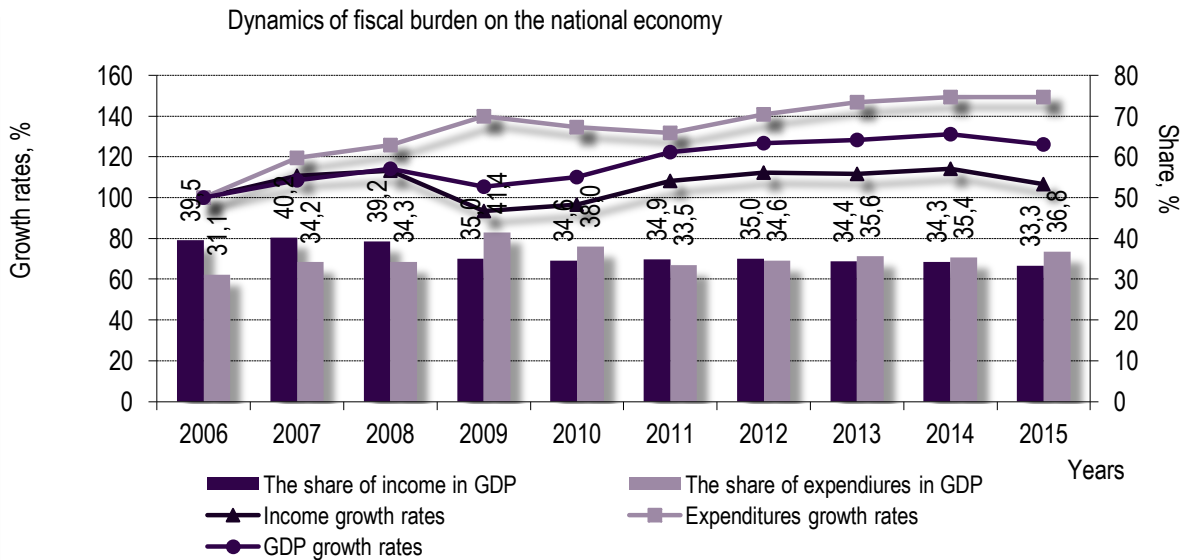


Figure 4. Dynamics of fiscal burden (RF consolidated budget revenue and expenditures) on the national economy (GDP). Fiscal burden is considered as the ratio of income and expenditure to GDP. The dynamics of changes in income, expenditure and GDP indicators are calculated with adjustment for inflation rate (the chart is based on the data of: Consolidated budget of the Russian Federation and budgets of state non-budgetary funds; National accounts: gross domestic product)

As a result, the overall fiscal burden (in the broadest sense) in 2015 reached 33.3% of GDP (Figure 4). This is significantly lower than it was at the beginning of the period under consideration: in 2006-2007, when the share of RF Consolidated Budget revenue in the GDP structure reached 39.5 and 40.2%, respectively. So, the size of the fiscal burden formed by budget revenues on the national economy has since decreased, as evidenced by the dynamics of GDP and budget revenue. During the period between 2006 and 2015 the GDP volume in comparable prices increased by 26.2%, and the volume of RF Consolidated Budget revenue – only by 6.5%.

It should be taken into account that at the beginning of the period under review, the Consolidated Budget implementation was surplus: the volume of expenditures was less than the volume of income by 20%. By the end of the period under review, the expenses began to exceed revenues by 10%. The deficit began to be filled at the expense of various kinds of borrowing and expenditures out of reserve funds, which, in fact, also form a certain kind of fiscal burden on the national economy, transferring it to future periods (Lukyanets 2013). Meanwhile, Consolidated Budget deficit allows us to consider the amount of expenditures as a measure of the fiscal burden on the national economy. As a result, it turns out that the fiscal burden, measured with the expenditure criterion, has increased from 31.1% to 36.8% of GDP by 2015. At the same time, the overall amount of expenditures of the RF Consolidated Budget in comparable prices increased by 49.3% in the period from 2006 to 2015. And the volume of GDP, we recall, increased only by 26.2%.

In general, it can be stated that the fiscal burden on the Russian economy is between moderate and high: 35-40%. At the same time, in the conditions of a high state budget surplus, the fiscal burden was higher, and this surplus evidenced that a part of the collected funds was accumulated in reserve funds and did not participate in expanded reproduction. However, in recent years, the state budget deficit has sharply increased, indicating that the government began to spend more than the national economy really allows. Maintaining the current situation can lead to an economic slowdown.

This aspect strengthens the relevance of scientific discussions about increasing the fiscal burden on the national economy (Sajfieva 2012; Pinczewski 2016; Panskov 2016).

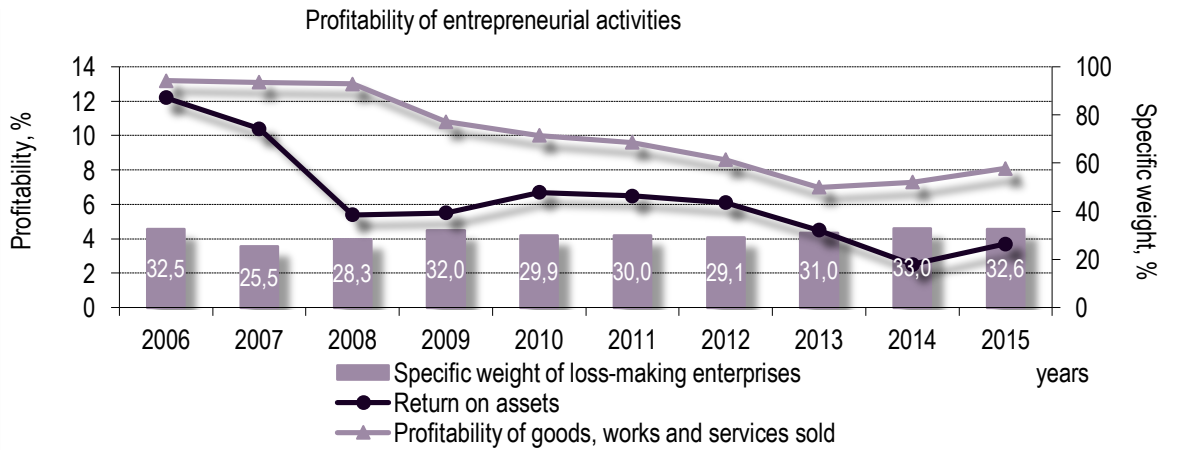


Figure 5. Profitability of goods, works and services sold and specific weight of loss-making enterprises (the chart was made based on: Finances: corporate finance. Federal State Statistics Service: official website)

The indicators of profitability and losses of entrepreneurial activity (Figure 5) characterize the efficiency of enterprises and economic growth: high profitability stimulates businesses to expand production and vice versa. In this case, the profitability of sold goods, products (works, services) is considered as the ratio between the balanced financial result (gain minus loss) and the cost of goods, products (works, services) sold. During the period between 2006 and 2015, the profitability of goods, products (works, services) sold decreased smoothly from 13.2% to 8.1%. The return on assets means the ratio between the balanced financial result (profit minus loss) and the value of corporate assets. During the period between 2006 and 2015, the profitability of assets has actually declined from 12.2% to 3.7%. Such a dynamics of indicators shows the disappointing results of entrepreneurial activity. While the profitability of goods, products (works, services) sold, characterizing the potential for continued production on an unchanged scale, did not decrease remarkably, the decrease in assets profitability, characterizing the potential for expansion and renewal of production, was quite significant. At the same time, the share of loss-making organizations in the period under review remained the same. They accounted for 1/3 of the total number of organizations, and in the middle of the period under review it was possible to observe smaller values. In addition, an important indicator characterizing the situation in the national economy is the dynamics of fixed assets. Fixed assets are items to be used repeatedly or permanently for a long period (at least one year) in the production of goods, the provision of market and non-market services, for management needs or transferred into temporary possession and use to other organizations. The fixed assets include buildings, machinery and equipment, vehicles, working and productive livestock, perennial plantations and others.

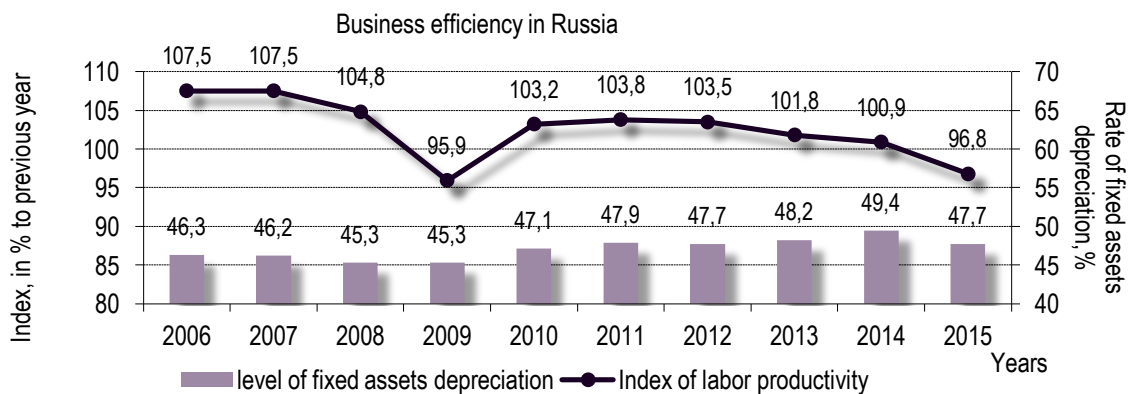


Figure 6. Index of labor productivity (in % to previous year) and rate of fixed assets depreciation (in %) (The diagram was made based on the data from: Efficiency of the Russian economy: macroeconomic indicators; Fixed assets: the rate of fixed assets depreciation at the end of the year)

The ratio between the fixed assets depreciation accumulated to a certain date (the difference between their gross book value and residual book value) and the total accounting value of these fixed assets on the same date characterizes the level of fixed assets depreciation. In the period from 2006 to 2015, the depreciation of fixed assets increased from 46.3% to 47.7%, reaching a new peak of 49.4% in 2014 (Figure 6).

Depreciation of fixed assets is a partial or complete loss of fixed assets cost or alteration of their consumer properties in the process of exploitation, due to the obsolescence and/or damages caused by forces of nature. In recent years, the increase in depreciation of fixed assets gives evidence of business climate deterioration.

A reduced labor productivity index (from 107.5% to 96.8% compared with the previous year) in the period from 2006 to 2015 also demonstrates this point. The index of changes in labor productivity in the national economy as a whole is calculated by dividing the GDP volume index by index of changes in total labor costs. The GDP change index is calculated based on the absolute values of these indicators in constant prices. The index of changes in total labor costs is determined on the basis of labor costs for all job types, including additional work and the production of goods for own consumption, in headcount and in full-time equivalent.

At the same time, most entrepreneurs mention high level of taxation and a lack of own and borrowed funds as key factors affecting business activity (Table 1). Thus, 35% to 51% of entrepreneurs of different economy sectors pointed to a high level of taxation. This factor has the same negative impact as the factor of insufficient demand – it was indicated by 37% to 54% of respondents. 32% to 44% of entrepreneurs stated the lack of financial resources, and a high interest rates for commercial loans – from 15% to 24%.

Table 1. Assessment of the main factors limiting the business activity by types of economic activity in 2015, in% of the total number of respondents*

| | Manufacturing industry | Construction | Services sector | Retail trade |
|--|------------------------|--------------|-----------------|--------------|
| Weak demand on the domestic market | 37 | 30 | 47 | 54 |
| High rates of taxation | 35 | 36 | 34 | 51 |
| Insufficient financial resources | 43 | - | 44 | 32 |
| High interest rates for commercial loans | 21 | 17 | 15 | 24 |
| Lack of qualified labor force | 15 | 17 | 19 | - |
| Poor condition or lack of equipment | 31 | 1 | - | - |
| High cost of materials, constructions and products | - | 31 | - | - |
| Competition from other companies | - | 28 | - | - |
| High transport costs | - | - | - | 24 |
| High rental rates | - | - | - | 27 |
| Limited assortment of goods | - | - | - | 9 |

Note: * the Table is based on the data from: Russian Statistical Yearbook: 2015.

Thus, it becomes evident that at the background of a sufficiently high fiscal burden, the situation in the business environment had been steadily deteriorating throughout the decade. At the same time, the slowdown in economic activity is an obstacle to the continued policy of increasing budget spending. Since the change in the volume of expenditure largely depends on the dynamics of the national economy, the reduction in revenues in conditions of high fiscal burden leads to the formation of a deficit and the emergence of needs for sequestration of costs, in particular, in the social sphere.

Since the volume of budget expenditures largely depends on the dynamics of national economy, the decrease in revenues along with high fiscal burden leads to the formation of a deficit and thus to the need to sequester expenditures, including social public spending.

2.3 The role of public goods in the modern economy

With an accelerated socio-economic transformation of the modern state and the development of market relations, the systemic role of public goods is constantly growing. At the same time, the main feature of public goods is their non-market nature, which means that they are free for consumers, because their provision is paid from public funds formed through the redistribution of the population income (through taxes, target contributions, or other mandatory payments). So, the

public goods are available to all members of society or individual social groups, whose they needs have to satisfy. At the same time, public goods can be both individually-oriented (education, health care, culture, recreation, etc.), and socially-oriented (law enforcement, defense, infrastructural development, etc.).

It should be noted that there is no common approach to the definition of public goods and public sector at present. Some scientists identify the public sector with the civil one, other researchers believe that the public sector and the civil sector overlap one another in the most part (Katz, Sevastyanov, and Veretennikova 2015; Klistorin 2015). The problems of prospects for budget revenues and expenditures are not less important (Rubenstein, and Blinova 2015; Katz 2011). The judgment that the social benefits, the customer and producer of which is the modern state, have the public character, gives rise to contradictions. At the same time, identifying public and civil goods is incorrect only in terms of goods produced by non-profit non-governmental organizations at their own expense. However, in the real economy, the share of such goods is so small that many researchers do not take it into account, which leads to contradictions.

In general, almost all the volume of public goods is produced by state institutions funded by budgetary sources. In addition, some of the public goods are produced by non-profit NGOs, which are also funded from public sources. The revenues of these institutions and organizations are derived from the redistribution of population incomes.

At the same time, we should take into account not just the demand to restore social consumption (as was announced by Russian authorities at the Gaidar Forum in 2017), but to use the current situation for the formation of a new system of organizational and economic instruments ensuring an advanced growth of social priorities for social development.

The development of socially-oriented non-profit NGOs with sectoral competence allows to solve this problem. This NGOs must be engaged in providing specific medical, educational or other social services. At the same time, they should rely on market principles of functioning, which means that their work should not directly depend on the government's funding standards and targets concerning the provision of a certain number of services, as it is now. Socio-economic efficiency, manifested in the final result of their activities (customers' satisfaction) is the key criterion for assessing their work.

The development of this institution can be implemented in the framework of providing remunerated socially relevant services. This will allow to develop maximum competition between socially-oriented non-profit NGOs, and at the same time to improve the quality of services while reducing their cost. However, it is noteworthy that our government should not absolve of its financial obligations. The Government should continue to provide the main source of financing for public goods.

3. Discussion

Analytical and theoretical results of the undertaken study showed that at the background of a sufficiently high fiscal burden, the situation in the business environment had been steadily deteriorating in Russia throughout the decade. At the same time, the slowdown in economic activity is an obstacle to the continued policy of increasing budget spending. The obtained results can be used to develop a new system of organizational and economic instruments that will ensure an advanced growth of social priorities for economic development. The development of the institution of socially-oriented non-profit NGOs will allow to address this issue.

Conclusions

In the present article we propose not only to restore the social consumption, but to use the current situation to form a new mechanism for implementing state social policies, based on market principles.

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