

Stabilization of the macroeconomic situation and the tax rates level (theoretical conclusions for transitive economy)

Estabilización de la situación macroeconómica y el nivel de las tasas impositivas (conclusiones teóricas para la economía transitiva)

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Abstract

The article deals with the theoretical background of the cyclical model of macroeconomic situation stabilization when the tax rate is relatively stable. Theoretical justification of the tax rate influence on the industrial cycle, on fluctuations or deviations of the production dynamics curve from the equilibrium line are also considered.

key words: macroeconomy, stability, tax, transitive economy.

Resumen

El artículo aborda los antecedentes teóricos del modelo cíclico de estabilización de la situación macroeconómica, cuando la tasa impositiva es relativamente estable. Se considera la justificación teórica de la influencia de la tasa impositiva en el ciclo industrial, en las fluctuaciones o desviaciones de la curva de dinámica de producción de la línea de equilibrio.

Palabras clave: macroeconómica, estabilidad, fiscal, economía transitiva.

1. Introduction

Macroeconomic instability requires the state to take specific measures to stabilize the economic development, which in most cases boil down to the use of tax policy as a mechanism of macroeconomic regulation that directly determines the budget policy and can form sustainable trends towards an increase of the real sector of the economy.

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Considering the national economy's transformation and changes in its structure, the state remains a powerful regulator of the economy. This applies, first, to countries with transitive economies, which involves focusing on developing a state economic policy aimed at preventing the development of negative and crisis phenomena in the national economy. Besides, there is a state control in the credit and financial sphere, which determines the development and adoption of one of the important decisions – fiscal and monetary policy, as well as the whole set of measures of state regulation of the economy in the conditions of the world economy internationalization and macroeconomic stability.

The desire to prevent or overcome the economic crises, that inherent in any state, in practice, faces rather serious obstacles, which caused not only by the real state and by tendencies of the national economy development. Moreover, it caused not only its potential and capacity for adaptive changes but also by those theoretical models of economic development, that offered. Really, they are acceptable for states, which have developed market economies (under certain conditions facilitating stable reproduction, but still not avoiding objective crises). However, the problems of countries with transitive economies are acute, their sustainable development depends not only on the economic situation in the world but also on the affective state policy of economic development.

A general approach to macroeconomic stability proposed by the neo-Keynesian position (Domar, 1957; Douglas Curtis and Ian Irvine, 2015; Solow, 1956, 1994) considers the development of an active stabilization policy with a predominance of budget-tax regulation instruments in it. However, it does not solve the problem of budget funds redistributing and the size of the tax burden for the budget fill, taking into account the level of inflation, inflation expectations in the frame of the state's monetary policy formation that aimed at ensuring the balanced economic development. The desire to avoid the growth of inflation that is rising on background of low national income growth and a decrease opportunities for sales of accumulated capital in the framework of the traditional approach, which proposed by neoclassical monetarism, is based on the priority of economic growth as a function of the accumulation of capital. That carried out at the expense of own funds (capitalization of a part of income) and borrowed funds (loans). In the neoclassical monetary model (Irvin B. Tucker, 2018), inflation is not only overcome but also becomes one of the main obstacles to creating the conditions for ensuring the process of capital accumulation and increasing productivity. For transitive economic exist one essence detail, that "asset stocks were unthinkingly ignored in earlier extensions of Keynesian flow models to open economies, but the recent concentration on stock equilibrium, with the slogan that the exchange rate is an asset price, did not do justice to an entanglement of capital and current account transactions" (Tobin, 1980). Another obstacle in this direction is the tax rate that actively influences to the macroeconomic situation.

2. Theoretical basis and methodology

Problems of economic growth types and directs of development can be considered, first, in the Harrod-Domar's model of economic growth (Domar, 1957). This model determines: the actual production growth $GC=S$, and dynamic of income $Y(t)=C(t)+I(t)$, and establishes the need for matching the accumulated capital in the increase of production with a certain amount of accumulations from income. I.e. the need to ensure the investment by money supply and commodity mass. Harrod also drew attention to the fact that as interest rates of large economic actors decrease, interest rates increase, while the level of personal savings decreases (Douglas Curtis, and Ian Irvine, 2015). As a result, for state control of accumulations as a source of capital was asserted the need, which reflected in the model of actual production growth by the introduction of two forms of borrowed interest – fee for "waiting" of cash receipts by the population and fee for "parting" with liquidity by firms. On the whole, the dynamic equilibrium in Harrod's model ensured by supporting constant growth rates of national income (Puu, Tönu, 2018) based on the regulation of accumulation, consumption, and inflation. It also was ensured by pursuing a state structural policy that regulates the rates and direction of investment, wage (in particular,

freezing of it), and monetary policy that maintains a certain level of inflation, under condition a high level of taxation (William, Easterly, 1997).

However, in fact, overcoming the cyclical disturbances supported by constant rates of economic growth as a condition for achieving the dynamic equilibrium. Therefore, Harrod-Domar's models are oriented by stable growth rates, which provided by the ratio of production factors that can influence the growth of aggregate demand and supply. Moreover, the effectiveness of monetary and tax policies, as factors, determines the containment or intensification of economic growth.

Second, Mead's model of economic growth $Y_t = F(K_t, L_t, T_t, N_t)$, in which the economic equilibrium is quite stable, so state regulation of the economy should be minimized, and limited to the mechanisms of monetary regulation (Meade, 1993). It is a monetary and tax policy that can change the ratio of profit and wages and influence the stability of the main macroeconomic indicators' growth rate. The stable equilibrium of the system, which the Keynesian model was striving for, not only made it possible to get rid of the static character of Keynes's classical model, but also introduce into the model parameters that ensure stable development in dynamics. In this case, the dynamism of the system is no longer the main factor in the imbalance, since it ensures the stability of the system (Krusell, P., Quadrini, V. and Rios-Rull, V., 1997). Therefore, at Harrod, the dynamism of economic growth suggests a steady growth rate over a long time. In both cases the emphasis on the expanded reproduction priority, which considered as part of an intensive model of economic growth, is obvious.

3. Results

3.1. Why Keynesianism again, but not neoliberalism

The balanced development of society is limited in neoliberalism by the action of the free market mechanism and free competition, the indispensable result of which is the alleged equality of supply and demand. In such circumstances, it is necessary to minimize state interference in economic development. The task of public authorities is to create conditions free competition as the realization of equal opportunities for all in society. In addition, neoliberalism adds a negative attitude to cheap money policies and job creation, which, in their view, exacerbates economic problems, since government decisions aim to support full employment through the use of credit expansion and stimulate aggregate demand, a consequence causing open inflation, which generates even more unemployment. However, spending resources to support the required level of employment is not a feasible and efficient task. Therefore it is not the state's responsibility to spend resources that can be redistributed between market actors, providing them with conditions of free competition, which will eventually create new jobs. This is a factual conclusion from the praxeology of the Austrian school (Rothbard, 1997). In general, the desire of the Freiburg School to justify limited state intervention in economic development to eliminate disparities in the economy by promoting free and stable functioning of business on the basis of Ehrhard's formula "competition wherever possible, regulation - where necessary" is also difficult to deal with. For example, Oiken's concept of the socially oriented free-market economy, the basic principle of which is the free development and free functioning of the commodity and monetary economy in the absence of a monopoly, has several significant disadvantages. They linked with that objective monopolization and consolidation of capital are not within one state, and in the context of the world economy, and it contradicts the socially oriented economy. Supporting political programs, in this case, is a concrete mechanism of manipulation of the consumer and the worker (which are, in fact, the same). It is a mechanism of generating the necessary demand and creating a sense of freedom, which externally realized in the form of unlimited choice. In practice, this choice tightly regulated by monopoly entities, receiving state support in the form of monetary policy aimed at increasing external debt.

3.2. Keynesianism and neo-Keynesianism: problem variation of economic development

The financial crisis at the beginning of the 21st century, in fact, confirmed the methodological fallacy of the neoclassical monetarist approach, which postulates the existence of a tight connection between the money supply and the speed of their circulation with the volume of production and the level of prices. The consequence of this approach is the belief that the speed of money circulation is stable. The problem focuses on that “monetary policy alone cannot provide these benefits... No matter how low-interest rates sink, if widespread economic fear grips a society then no investors will be willing to take the risks that their ventures will succeed... Government-sponsored investments, on the other hand, directly stimulate an economy, even in the face of very low economic expectations, which may render monetary policy impotent” (Ramirez, 2002, p. 50). Therefore, the cyclical fluctuations do not disappear even in the case, when the inflation does not influence the cost of credit, and the borrowed funds can be used quite effectively for the purpose of accumulation. In this case, it is necessary to take into account the changes in total costs and money supply, which once again reanimates and updates the Keynesian idea of direct proportional dependence of the money speed on the interest rate and an inverse proportional dependence on the money supply. As a result, in the aspect of the Keynesian model of the economic cycle (IS-LM), this idea is also relevant from the point of view of the current financial and macroeconomic situation stabilizing (Tobin, 1980). For example, general macroeconomic instability, imbalance, and unevenness of profit rate, the disproportion in the resource of various sectors of the economy provision, as integral phenomena of transitivity (Viter, and Brezhneva-Yermolenko, 2015), force us to take, as a decision on stabilizing the economic development, the postulate about the leading role of tax policy in ensuring the necessary level of budget revenues. The problem of budget funds redistributing and its effectiveness in the aspect of the economic development priorities ensuring becomes secondary, because the tax policy provides the primary use of expenditure mechanisms for the budget funds using and the establishment of preferential tax rates for some sectors of the economy. The first case connected with the so-called “manipulation of public spending”, and the second – with the “manipulation of taxation” (Bassetto, M., 1998).

The main ways of these problems solving are usually associated with the choice between discretionary and non-discretionary tax policies (Brederode, Robert F. van, 2009). Non-discretionary taxation involves using of automatic (built-in) stabilizers (changes in tax revenues at different periods of the economic cycle, social payments, etc.), which, without frequent intervention, react to changes in the macroeconomic situation, and the tax rates are acting enough long without changing their value. As a result, of this policy adoption during a period of improvement in the macroeconomic situation, tax revenues automatically increase, which reduces the purchasing power of the population and restrains economic growth. Discretionary taxation also leads to a temporary positive effect, because the probability of the tax burden increase in the production sphere (the dependence of the total GDP growth, lower inflation level, targeted distribution of budget funds, etc.) in future periods is significantly increased. This connected with the need to create a budget surplus with the aim of mitigating the effects of the economic recession. In this situation, the budget minimizes the expenses for social needs, which partially satisfied by increasing tax rates for some economic actors. None of the variants has not unambiguous advantages, because the budget itself is an indicator of the tax policy effectiveness and, therefore, the negative or positive dynamics of this indicator directly depends on specific of the state tax policy' instruments and mechanisms. It is taken into account the dependence of the dynamics of the national economic growth on the effectiveness of the tax system and the efficiency of the budget funds distribution. As a result, it is necessary to include the magnitude of the intensity of the influence of the dynamics of the changes in tax rates on increasing tax revenues in the cyclical model of the macroeconomic situation stabilization. It is also necessary to rationalize a single fixed optimal tax rate in connection with the scale of state control the process of income redistribution and allocation of the necessary part of it to social development items.

3.3. Dynamic of economical development in aspect of transitive economic fiscal and monetary politic: explication of Laffer's curve

Theoretically, tax cuts or changes in the tax system (for example, abandonment of the progressive taxation system) have a positive effect on the dynamics of expanded reproduction (Baxter, M. and King, R., 1993; Chamley Christophe, 1986). Therefore, the state is interested in investing in stimulating economic development. However, the state is also interested in the budget stimulation of economic development. This implies a change in tax policy in the direction of increasing the tax burden on economic agents. In the latter case, the budget mechanism has redistributed a part of the produced by the public product, which is defining the relation of the tax fees total amount to the total national product. This relationship is determining macroeconomic indicators of the tax burden. They in practice are derived by assigning the sum of all accrued taxes and tax payments to the volume of product sales, considering the income from other sales (including payments to extra-budgetary funds). Attention to tax payments in the structure of economic actors' incomes in terms of the degree of the tax burden and determining the real value of income, which declared for taxation, traditionally given in the context of analyzing the Laffer's curve that characterizing relationship between tax rates and tax revenue (Malcomson, J., 1986). In fact, we are talking about the dependence of state revenues on the average tax rates level (primarily, in the economy of supply) in a situation, when it is possible to establish the optimal level of taxation where the state revenues reach their maximum.

Indeed, the possibility of the optimal tax rate that maximizes tax revenues determining and establishing relates to a reduction of high tax rates. Because low rates contribute to increasing income and, consequently, to increase tax revenue. However, this provision concerns, first of all, the methodology of analysis, which focuses not on evaluating the effectiveness of the tax system individual components, which involves searching for Laffer's points for specific types of taxes. This provision concerns the starting points of the Laffer's concept, which uses the concepts of the total tax burden, the entire mass of tax deductions in creating the analytical construct from the parts of tax revenues into the consolidated budget in the volume of GDP. The effectiveness of the tax policy and the providing conditions for stable economic growth, in this case, depending on the solution of the question about the possibility of establishing a limit on the exemption from tax-payer in the 40-50% of the of income amount, i.e. in fact, with the determination of the critical value of the tax rate. Laffer believed that the limit is the exemption from producers more than 35-40% of the added value, because at such a rate the increase in investment in expanded reproduction loses its meaning, that contributing to the emergence of the "tax trap" effect, in which the state relying on when using the policy of maximum taxes. Indeed, a tax increase, in this case, not accompanied by an increase in state revenue. For this reason, in modern practice, the adoption of a tax level of no more than 35% considered a way out of the "tax trap" (Aiyagari, A., 1995; Bassetto, M., 1998; Chamley, Christophe, 1986). In most cases, the calculation of the indicated value does not take into account the part of the GDP, which pertains to the shadow sector of the economy that avoids taxation. The result is an increase in the tax burden in the real sector of the economy in comparison with the nominally established amount of tax rates. The redistribution of the amount of not received taxes by the state carried out in the framework of the proportional dependence between the part of GDP, which produced in the real sector, and the total amount of not received taxes. In fact, part of the GDP that related to the real sector of the economy turns out a real amount of the tax burden, and the larger the part of GDP that remaining in the shadow sector, the greater the tax burden accepted by the real sector. In this case, even a reduction in the real tax rate does not guarantee the removal of a substantial part of GDP from the shadow sector of the economy and does not provide a reduction in the tax burden on the real sector and overcoming the state budget deficit. The reason for this is the fact that the lower limited tax rates considered as one of the factors in the growth of labor supply and labor productivity.

The dynamics of real GDP changes, in this case, are conditionally positive due to the probabilistic nature of the value decrease in total costs, which determined by labor prices decrease as a result of an increase in its supply

(Krusell, P. and Smith, A., 1998). This assumption is also valid in the case when a relatively low tax rate is considered as an incentive for investment activity that supported by growth in savings. There is a minimizing of the positive effect is associated with the activities of credit and financial institutions and regulators, which in order to increase incomes leave the interest rate on loans unchanged, and often simply increase it. The investment activity of financial institutions remains outside the general dynamics of investment activity in the manufacturing sector, ensuring a reduction in credit risks by setting a relatively high-interest rate.

The superposition of the real tax rate on the Laffer's curve demonstrates the interval of bias in the dynamics of the ratio of GDP growth to the real value of the tax rate, as well as the real gap between the minimum and maximum value of the tax burden on the real sector of the economy. The refusal of a fixed tax rate, in this case, relates to the possibility of determining by the tax policy of the real range of the variable value of the tax rate and tax payments. At the same time, the "negative effects" of tax policy should be considered, because an unreasonably high tax rate can lead to the development of the main macroeconomic indicators negative dynamics (Pecorino, Paul, 1995). For example, the additional tax rate for a specific industry of production in the aggregate amount of taxation, as a result, may lead to the decrease of the real amount of contributions to the budget, to decrease in the number of jobs, etc. due to reducing of the economic efficiency and the withdrawal of capital to areas of lesser "tax risk". In such conditions, even the withdrawal of capital through long-term investment from direct consumption of the money supply, and regulation of the level of the deposit in the banking system, or regulation of the refinancing rate may prove to be ineffective for the inflation regulation. In most cases, there is a decrease in the national production real volume while maintaining a relatively stable level of the money supply. Given the ratio of funds, which concentrated in a particular sector of the economy, to GDP, a tax policy tends to raise the level of tax revenues to the budget above the level adopted for taxpayers (for example, a 15% rate). An important role in this case also plays the fact that the redistribution of income based on an increase of return in part funds that received in the budget.

As a result, we can make an assumption about the declining productivity of capital and part of declining consumption in the structure of economic crises are directly related to the level of the tax rate and tax policy in general. For theoretical justification of this assumption, which means the tax rate influence on the industrial cycle, on fluctuations or deviations of the production dynamics curve from the equilibrium line (Schechtman, J. and Escudero, V., 1977), is need to use the cyclic one-factor model in the context of the Hansen' cycle dynamic theory. Because, as it knowing, the tax rate reduction leads to the development of an acceleration effect, when the growth of income is able to increase investments that, in the aspect of the temporal parameters of the production cycle, lead to an increase in demand for investments. The provision, which is by Hansen put forward, implies that the tax system and tax policy classified as "built-in stabilizers" that regulate economic development at each phase of the cycle (rise, fall) by the tax rate changing, supporting in the same time the demand for investment regardless of the cycle phase. However, in "classical" economics, the dynamic equilibrium of the economic system was determined in Keynes conception by the dependence on production growth and aggregate demand, and the stability of the economic system depended on the balance of accumulations, investments, and income redistribution for expanded reproduction. This at the theoretical level allowed influence to the value of aggregate demand, employment, and national income through regulation of consumption, limited and marginal efficiency of capital, and interest rates. Then, in the case of a resource-dependent economy, it is always acute the question about the "profitable effect" of investments, which considered as the basis for increasing of consumer demand and stimulating of the product development, if there are surplus trends, the stable formation of surplus capital, falling investments demand, and rising unemployment. Moreover, the stability of the system can be supplied in the case, when income would grow more rapidly than the capital stock with the result that savings would grow more rapidly than the capital stock. Of cause, the rate of growth of the capital stock would rise until it reaches the critical level, moreover, we must consider "a credible monetary authority can use

monetary policy to cushion macroeconomic shocks and stabilize macroeconomic performance. The risk of severe economic downturns minimize. This results in lower economic risks for all investment transactions and an accordingly lower cost of capital. In addition, a strong monetary authority can respond to asset bubbles in a way that can minimize their potential to cause macroeconomic harm. Thus, legal structures to support a depoliticized monetary authority are fundamental macroeconomic infrastructure” (Ramirez, 2002, p. 48-49). That is why we need to pay attention to “neoclassic economics tradition”, where are two trends for deciding the question on the theoretical justification of the tax rate influence on the industrial cycle, on fluctuations or deviations of the production dynamics curve from the equilibrium line.

For a transitive economy, it is ambiguous to believe that government intervention in the economy is a deterrent to economic growth because, unlike the objective situation, where insufficient levels of aggregate spending lead to a decline in real growth rates relative to the potential, it has a subjective nature for a country's economy. The constraint effect, such as resource constraints, can also be interpreted in the same way, because most factors have an indirect impact on economic growth, if, of course, it is equated with the productivity of labor growth. Although extensive and intensive ways of economic growth paths suggest otherwise: reproduction dynamics, rational allocation, and redistribution of resources based on scientific and technological progress, which is institutionalized in government regulation process, even in the face of the insufficient resource base, can contribute to economic growth. While maintaining the trend for the growth of capital, in particular for the intensive type of economic growth. The essence of the intensive type of economic growth is to scale up the effective means of production through the use of innovation, which changes the process of expanded reproduction, filling it with a number of features. In this type of economic growth, one can observe an increase in the activity of the conditions formation process for the development of a transitive economy, characterized by innovative efficiency. In this case, a resource-saving is not an exclusive characteristic of the innovation economy efficiency, because it depends on the tendencies and dynamics of scientific and technological progress, the cycles oscillation of which influences the qualitative content of innovations. Against the background of a stable economic structure can lead to the development of disparities in the development of individual industries. As a result of the introduction of intensive extended reproduction, the likelihood of a significant increase in economic growth on the basis of innovative (substantially linear) dynamics can lead to an increase of unemployment and an increase of inflation level that the associated with unemployment. However, non-linearity is determined the probably of emergent changes of the economic processes directs.

4. Conclusions

There is a natural contradiction between the temps of production (which is intensively increasing the production potential) and the temps of consumption because the value of consumer products in the total volume of produced by the innovative economy production is inferior to the value of manufactured means of production. Therefore, it is possible to claim that the innovative economy – is not a social-oriented type of economy. In this case, the production structure of capital under conditions of innovative development is deforming, which leads to a slowdown of the capital growth process in the field of commodity product production and its further "virtualization", which creates other sources of national income growth. That is why in most of the existing models, solving these questions, when applying a Laffers's curve on them, does not consider the specifics of the import substitution effect. For example, an increase in tariffs and taxes instead of lowering the discount rate and increasing refinancing have resulted in the irrational use of the import substitution effect. For the transitive economy, we can observe the negative effect of limiting the money supply as a means of reducing inflation, on the one side. An increase of the money supply is not the cause of price increases, because it provides stimulation of economic growth, in the conditions of which the price situation streamlined, on the other side.

Accelerators and multipliers of neoclassic models in the aspect of regulating the economy by the tax rate change indicate that the accelerating of remonetization and increasing of the money filling of the economy does not necessarily result in the inflationary dynamics. Moreover, considering this the issue of financial stabilization of economic development can be decided by the direct targeting of inflation when inflation is a priority target for monetary policy. As a result, a balanced balance of payments is the result of the harmonization of the interests of exporters and importers. It has a positive effect on the budget and creates a margin of time for determining the tax rate optimal level.

In the theoretical aspect, the most controversial issue is that economic growth is more important than stability. In particular, the innovative efficiency of comprehensive intensification of economic growth contributes to reducing the cost of production. But at the same time causes the changes in the socio-economic infrastructure of society, because achieving a positive effect on reducing the cost of manufactured products is accompanied by a slowdown in the increase in production due to the transformation of capital structure (part of "virtual" capital increase), which is divided into the reproduction of innovation. The objective consequence of it is the negative dynamics of labor market development..

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