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CONTRIBUTIONS OF DIFFERENT SOCIAL GROUPS TO THE BUDGET REVENUE – INSTITUTIONAL ASPECT

The paper analyses the different contribution given by the main social groups – the business and the households - to the state budget revenue. It is shown that the prevailing part of the budget revenues are insured by the households. On the other hand, in the group of the business the non-financial sector insures the prevailing part of the state budget revenues compared to the financial one. As one of the main reasons for this structure are defined the existing institutions, i.e. the acting formal and informal rules in the economy and in the society as a whole.

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In each society and contemporary country the amount of contribution, their individual members or groups of people make to its development and functioning, provokes ongoing talks and discussions. Sometimes these groups of people are clearly defined even institutionalized, but sometimes they are barely visible masses who are activated in one or another way during elections and larger or smaller social unrests. As a rule, the above mentioned discussions are subdued and more moderate in the expansion phase of the business cycle, and are largely activated in the contraction phase, i.e. in periods of crisis and depression. This is to a full extent true for Bulgaria.

One of the criteria to measure the contribution of different groups of people to the prosperity of the society as a whole, is their contribution to the state budget revenue. It is fully understandable because it is the budget that is the source of financing and functioning of the so called public services and/or public and government activities such as the army, police, state bureaucracy, education, health, social support of not economically active segment of the population, i.e. the socially weak, pensioners, etc. We can also understand the striving of all players in the abovementioned discussion to be identified with the taxpayers or even with the Taxpayer. The media helps to foster social expectations (indeed fully justified and just) that the Taxpayer has a specific role and therefore, specific rights in society, i.e. he/she can impose opinion during public discussions of issues of state or public interest, and be in partnership with his/her representatives in the lawfully elected state institutions, etc. This is particularly visible in discussions of decisions directly affecting the economic interests of the people – the amount of pensions, salaries of government employees, taxes and social contributions, the nature of taxation, should it be progressive or proportional, etc. The national economy being at present in its contracting phase, these discussions are on the agenda daily. It should be kept in mind that the social propensities fostered during the talks are the direct source of formal and informal rules of social behavior, i.e. of the so called institutions according to the institutional economics theory.¹

¹ See for example *North, D.* Institutions, Institutional Change and Economic Performance (Bulgarian edition) Sofia, 2000, p. 13. We should note that in this theory "institutions" mean behavior rules,

Of course, the state budget, respectively the contribution to the budget revenue, is not the only criteria to measure contribution to the society as a whole, but most probably is the most essential. We should not forget that 40% of the created GDP passes through its channels. Therefore the discussions held are actually arguments who (which social group) should pay the social price of the crisis and also of the functioning of society at all, or at least the larger part of it.

It is of particular importance for the present research *to identify* the different social groups whose interests are discussed and protected in the ongoing talks and arguments. The task is not easy because the society comprises a number of groups whose constituents overflow into each other. It is not rare that the same people or group of people identify themselves with more than one group or organization, some groups being clearly defined and institutionally presented while others do not, etc. Examples of such groups are the groups of businesses dealing with the production of goods and services, of the employees, pensioners, of supporters of liberal economy or strong state regulation, of youth, different ethnic groups, etc. The problem is additionally aggravated by the fact that by speaking about the budget revenue, all possible social groups should be narrowed down to the so called “economically active population” as the main (*but not sole*) subject of this contribution. Moreover, it is well known that due to demographic specifics of the period in question, its relative share to the total population of the country is the lowest in the whole history of Bulgaria, the tendency for the near future being of further degradation. We will see, however, that part of the so called not economically active population, mainly pensioners, also have significant contribution to the budget revenue, mainly by paying VAT and excise tax on all consumed goods and services.

This diverse picture makes it necessary to clarify that the present paper will address the contribution of two social groups. *The first group* being the so called “business”, i.e. all enterprises producing and selling various goods and services. This group includes all active trade companies, cooperatives, non-personified companies, some sole traders and representatives of the freelancers, who have organized their activity as firms. *The second group* consists of persons with labour contracts, i.e. offering their labour against remuneration to the representatives from the first group, of those who produce and sell services with their personal labour (usually on civil contracts or without any contracts), to a certain extent the pensioners, and physical persons controlling the first group. In short, this group comprises what statistics call ‘households’.

It is necessary to point out at this stage that the *above grouping is not absolutely precise*. It is obvious that there is overflowing among these groups. There are pensioners who work, as well as such who are engaged with commercial activity and belong to the first group. Some more coincidences and overflowing can be seen, but in our opinion, the offered grouping is nearly correct and fairly visible. The coincidences and overflowing are not of a nature to eradicate the boundaries between the two groups.

whereas what in this country and continental Europe is called institutions, the new institutional economy calls “organizations” (Ibid., p. 14).

Finally, while presenting both of the indicated groups, the paper will highlight the different degree of their institutional (and according to the institutional economics language – organizational) identification. The first group is largely institutionalized by the employer and branch organizations. It is true that the latter do not include all representatives of this group. Nevertheless, they are representative enough and in general undoubtedly express the group interests. It is clearly visible in the so called mechanism of three-party cooperation. Just the opposite, the second group can be described as less institutionalized. It is represented in a way by the trade unions, which are authorized to take part in the three-party cooperation mechanism, but these organizations represent just a small part of the second group. In reality they represent only hired workforce, moreover its lesser part.

After having identified the two social groups, with all above stipulations, we can proceed towards examining their contribution to financing the revenue side of the budget. Before doing so, however, we would like to list the sources of information which we used to take data from on the revenue side of the budget. On the one hand, these are *the yearly acts on the state budget* promulgated in the State Gazette. These laws are a widely accessible source, and although their execution is obligatory, it does not always take place. Therefore, a more reliable source are the accounts on the realization of the budget, written and published by various government institutions, mostly of the Ministry of Finance. A *common drawback* of the both laws and to a certain degree of the reports and analytical materials on the realization of each budget law, is the insufficient breaking of the individual headings to smaller components. Despite these drawbacks, the overall picture for the period 1992 – 2009 shows a quite specific structure of the individual items of the revenue side of the budget. Despite the differences and inconsistencies between:

a) The planned in the revenue side of each annual law on the state budget revenues according to items and their actual realization reflected in the accounts for each separate year on the one hand, and

b) The planned in each law on the budget revenues and their actual realization between all individual years for the whole period since 1992 until present, on the other, a relatively persistent structure of the revenue items in the budget is revealed with a tendency towards one single direction as shown below.

First, it should be noted that in all budget laws since 1992, tax revenues make up the most significant part of the total budget revenues, varying between 76% for 1993 and about 91.5% for 1992 and 2008. In fact, over this whole period three sub-periods can be identified - 1992-95, 1998-2004 and since 2005 until present. From the whole period we have deliberately excluded 1996 and 1997 when due to the hyperinflation the picture is considerably distorted. We should point out in advance that we get a normal picture only in the last sub-period, i.e. when there is no interference of temporary by their nature revenues in the state budget.

For example, in the first sub-period the average relative share of the tax revenues in the total budget revenues is about 78-80%. The specific thing here is the presence of a revenue which disappears with the introduction of the currency

board regime, these are the so called ‘contributions on the surplus of BNB (Bulgarian National Bank) revenues over expenditures’. For those years it varies between 9 and 13 billion leva and is approximately equal to the revenues from corporate tax or income tax of physical persons – nearly about 10% of the total revenues.

The picture is more varied over the next period when a large part of the real economic reforms were undertaken. The period starts with tax revenues of 93.8% for 1998 (the first post inflation budget), and continues with 88.36% for 1999, about 80,7% for 2000 and 2001, 78% for 2002, 79.5% for 2003, and 82.7% for 2004. We can see that there is an initial high relative share, which drops sharply, and then rises continuously until it exceeds the level of 87-88% of the gross budget revenues. The explanation of this movement is as follows: initial mobilization of all reserves of the tax system, followed obviously by an additional revenue, which reduces the relative share of the revenues from tax. The source of this additional revenue is the revenue from privatization, which was very intensive during that period. This sub-period and these additional and temporary by their nature revenues continued until 2004 including both revenues from real privatization and revenues from sales of state participation in banks, although the latter from legal point of view are not considered as privatization.

Due to depletion of this temporary resource, since 2005 and particularly since 2006 normal budgets have been prepared where *tax revenues make up a stable 90% in the overall structure of the budget revenues*. This tendency seems irreversible and could be disturbed only in individual years, for example a large single sale of ‘carbon emissions’, or of state energy objects.

Therefore, for the whole described period of 1992-2010, the main subject who finances the revenue side of the budget is the Taxpayer. It is of interest to see the profile of this Taxpayer. It can be done by analyzing the internal structure and sources of the tax revenues.

The basic types of taxes, appearing also as separate items in the revenue side in every single state budget law, are as follows:

- a) VAT (until 1994 – tax on turnover):
- b) Excise duties
- c) Income tax of physical persons
- d) Customs duties

e) Corporate tax, i.e. tax on the profit. We should add here the taxes paid by the gambling and insurance entities. It is interesting to note that until 2004 included, the tax structure contains breakdown of the part paid by non-financial and financial entities, while since 2005 there has been a generalized index called corporate tax.

The list above intentionally does not include revenues from taxes on property. The reasons are as follows:

- a) Its low value – it is smaller than any of the items mentioned above;
- b) According to the law revenues from these taxes directly finance the local authority budgets and not the state budget. For this reason they are not subject of the present paper;

c) For us at least it was not possible to find out what part of the property taxes are paid by the households, and what by business.

Revenues from the abovementioned taxes make up almost entirely the so called "revenues from taxes" in the state budget. We use the word 'almost' as far as there are parallel revenues from state and other taxes collected within the system of the Ministry of Finance, Ministry of Interior, Ministry of Justice and other institutions, but their value is too small to change the overall picture.

Let us examine the contribution of the two above mentioned social groups – to be named businesses and households – in the payment of the described taxes. *The first group, i.e. the businesses, pay taxes entirely according to "e" above.* Besides, the businesses have a share, although small, in the payment of:

1. See "b" - excise duties. One part of the excise duties financing the budget are paid directly by the business. These are due excise duties on some cars, fuels, as well as other excise goods purchased for representation needs. Another part of the excise duties is paid indirectly – by the members of the households of the owners of the companies.

2. VAT and customs duties – the same way.

3. Taxes on the personal income of physical persons – paid by the members of the households connected with the companies.

Unfortunately, the exact share of the business in the taxes according to 1-3 cannot be defined exactly.

As far as *the second group is concerned – the households – it bears the burden of paying almost all taxes, with the exemption of the corporate tax.* The fact that technically and organizationally the VAT and the excise duties are paid by the first group, does not change the fact that the final payers are the households. An exception may be the involvement of some connected to the businesses households in the payment of the VAT, excise duties and personal income tax (see the Table). At present we cannot estimate precisely their relative share, but according to some indications, which will be discussed further, it becomes clear that this share is *insignificant*.

Table

Relative share of the payments made by households and businesses* (%)

Indices	1994	1995	1999	2001	2003	2009	2010
CT:TRT	12.38	11.23	9.74	7.76	14.32	13	10.23
PIT:TRT	16.76	9.48	14.73	9.2	6.16	12.09	12.78
VAT:TRT	33.5	45.12	47.1	40.28	48.3	49.28	44.22
E:TRT	16	16.37	15.7	18.83	24.64	22.53	29.79
C:TRT	16.29	13.8	10.86	2.22	2.96	1.14	0.9
VAT+C+E+PIT:TRT	81.95	84.76	88.43	70.5	82	85.03	87.68

* TRT - total revenue from taxes; CT - Corporate tax revenue; VAT - revenues from VAT; PIT - revenue from personal income tax; E - revenue from excise duties ; C - revenue from customs duties.

Sources: State Gazette: issue 22/1994, issue 46/1995, issue 155/1998, issue 108/2000, issue 120/2002, issue 110/2008, issue 99/2009.

The Table shows that *the contribution of households to the revenue side of the state budget* (i.e. the sum of the revenue from VAT, excise duties, customs duties and personal income tax) *varies over the years after 1992 from 82 to 88%*, the only exception being 2001 when this share is 70.5%. *Respectively the contribution of the businesses over the same period varies between 7.76% (for 2001) and 14.32% (for 2003) most often being at levels 11-12%.*

Regarding the above numbers we would like immediately to stipulate that *the presented contributions of the two social groups to the revenue side of the state budget are far from absolute precision.* They should be corrected in several directions, which partially will be made further in the paper, but it is a fact that *they reveal a clearly defined trend of considerably greater contribution of households, possibly about 7-8 times.*²

Here are some suggestions on *the way it is necessary to correct the abovementioned quantitative contributions* of the two social groups to the revenue side of the budget.

Firstly, as evident from the above presented numerical data, the contributions of the two exemplary groups to the revenue side of each budget, are calculated on the basis of what is formulated in the respective budget laws. It is completely obvious that should we consider only this reason, the contributions indicated as percentage of the revenue side of the budget cannot be entirely precise. Nevertheless, the numbers set in the budget, although being part of a legal regulation, serve more as a forecast. *Far more precise are the official accounts of the realization of each budget law.* On the other hand, however, regardless of the rather provisional nature of the numbers set in the law of the state budget, they are entirely sufficient to present a general, approximate picture of the contributions to the revenue side of the budget, as well as the trends in these contributions. We should not ignore the common, but not officially regulated practice when writing the budget to base it on “what is achieved”, i.e. the writing of each successive budget is based on what is fulfilled in the previous one with corresponding corrections. The conclusion is that *the unavoidable disparities in calculating the contributions to the revenue side of the budget on the basis of the set figures in the state budget law, are not so large as to considerably distort the general picture.*

To illustrate this let us look at the budget for 2009³ by comparing the data for revenues as set in the law with those from the report of its implementation. We should note in advance that in writing the budget for 2009, due mainly to the

² I would like to underline that this conclusion cannot be considered a novelty. The facts that on one hand the tax revenues finance the major side of the budget revenues, and on the other that within the tax revenues the major income is from the indirect taxes, i.e. from the low paid strata of the population, have been fixed in economic literature many times (see *Stoyanov, V. Basics of finance, Vol. I, VIIth edition. 2003, p. 149, 156, 205-207, 320*). This also applies to the fact that the shown distribution is a criteria for the existence, lack or the degree of social justice in taxation.

³ Ministry of Finance. Information bulletin. Implementation of the consolidated budget, December 2009 (www.minfin.bg).

current crisis and partially for political reasons (pre-elections), the disparities between what is written in the law and the report for its implementation are greater than normal. For example, the planned revenues from taxes are 18.816 billion leva but 14.358 billion leva or 75.9% are collected. The planned revenues from VAT are 9.32 billion leva, but 6.43 billion leva are collected. Corporate tax revenue is planned for 2.46 billion leva but 1.617 billion leva are collected, and their share in the revenue side is not 13% (as written in the law), but 11.3%. The revenues from personal income tax, however, were planned for 2.286 billion leva, but 2.029 billion leva are collected, their relative share in the total tax revenues *being not 12.09% but 14.1%*.

Such comparisons between the figures provided in the law on the state budget of Republic of Bulgaria for 2009 and the figures of its real implementation reveal disparities and differences. The facts of 2009 do not weaken but strengthen the general conclusion reached above, namely that the contribution of households in the revenue side of the state budget definitely exceeds that of the businesses.

Secondly, the picture of the contributions of both groups as formulated in the law and according to the implementation reports, cannot be precise because of the above mentioned overflowing between the two groups. Within the scope of this paper we cannot estimate the relative share of the business related households in the total household contribution. Independently, a fact acting the same way is that a part, although a small one, of the pensioners have their own business, sometimes not a small one.

Thirdly, the picture is obscured by the generally accepted practice of *tax evasion*. It is arguable which of the two groups evades more due taxes, and what their total amount is compared to the total amount of the tax revenues. For obvious reasons statistical data for this phenomenon do not exist, while the information about the so called 'grey or shadow economy' varies between 20 and 40% of the GNP. However, from the point of view of the purpose of the present paper, this factor is meaningless, because we are talking about the contribution of individual groups in an already fulfilled or at least mandatory to be fulfilled state budget.

Fourthly, a phenomenon should be pointed out, which leads to *the redistribution of already raised revenues* in the state budget. It is popular as 'theft of taxes' or 'tax siphoning', mostly of VAT. These are fictitious deals where the state 'refunds' VAT to benefit certain persons. It should be pointed out immediately that this phenomenon differs entirely from the previous one where payable tax is not paid. In this case money is received from the state budget, i.e. from *already collected taxes*, through certain fraudulent claims. By definition such crimes can only be committed by the first group, that of the businesses, thus lowering its contribution to the revenue side of the budget. Unfortunately the exact scale of this phenomenon is unknown and there are no statistical data.

Nevertheless, we cannot deny the existence of a similar, although not the same phenomenon, with the second group. It is about social welfare illegally claimed by certain groups. The difference is somewhat formal, because in this

case it is not the state budget that directly suffers but the budget of the National Social Security Institute. Both budgets, however, are so closely linked, that we can speak of considerable similarity in the phenomenon. Unfortunately here no reliable quantitative data are available as well.

The picture of the contributions of different social groups in the revenue side of the budget described above, becomes clearer when their relation, within the frame of one and the same tax payable by both groups, has been analyzed. Of course, such a clarification is only possible if and when there are reliable statistical data. Let us examine in this respect some individual taxes and the structure of their payment by the two groups as a whole, and by their composite parts. It is particularly true for the direct taxes.

The first breakdown in the payment of the direct taxes can be done between the income from the personal income tax, and those from the corporate tax. The Table shows that (according to what is formulated in the respective budget acts, and not according to the real fulfillment) for most part of that period, the contribution of the personal income tax exceeds that of the corporate tax, namely with 2-5 percentage points. Exception to this (when the formulated revenues from the corporate tax are higher) are the years 1992, 1993, 1995, 2003 and 2009. For the period of 'normalization' of the budgets, for instance since 2004, 2009 is the only year when a higher income from corporate tax is written in the budget, but as we saw above, when reporting the actual fulfillment, again *the revenues from physical persons are higher*. An interesting picture emerges from analysis of the internal structure of the two direct taxes. In particular:

a) *The revenues from the personal income tax.* Statistics defines two subgroups – income from labour contract and income from other sources. While the first group includes directly only households, the second group is very diverse – sole traders, formally at least belonging to the businesses; freelance persons who can fall mostly into the household group; and simply persons not employed with labour contracts but with the so called civil contracts, who can again be almost entirely included in the first household group. Here we can definitely speak of prevailing contribution of the first group, i.e. the households. For example, in the above mentioned report on the implementation of the state budget for 2009, it is said that within the revenue raised from personal income tax, the revenue from labour contracts amounts to 1687.5 million leva, while from other sources the sum is 250.7 million leva, i.e. the difference is about 6-7 fold. This difference gets more substantial when we take into account that a part (the greater one, internal breakdown does not exist) of the revenues from other sources are again at the expense of the households. The picture described is not only true for 2009, or for most of the years, but for the whole period since 1992, both at level budget law and reports on fulfillment. Moreover, by 1998, i.e. the hardest of the whole period, the persons with income from different sources, paid their taxes not upon receipt of income, but by 15 April in the following year, when the taxes paid were considerably lower, and in some years – many fold minimized by the high inflation

over that period. *I.e. that tax is characterized by the tendency lower income groups to bear the greater tax burden.*

b) With the corporate tax the picture is similar. In this case the national statistics traditionally reports the tax distribution by two subgroups – the nonfinancial, and the financial institutions including the insurance companies. Again, according to the quoted report on the fulfillment of the state budget for 2009, the revenues from corporate tax amount to 1617.4 million leva, of which the nonfinancial institutions, i.e. the real sector, have raised 1458.5 million leva, while the financial institutions along with the insurance companies – a total of 159 million leva. The relation is 1:9. Moreover, the income from the whole insurance sector amounts to 5 million leva at gross premium income of over 1.8 billion leva. It will be interesting to see what is the share of large enterprises in the revenue of nonfinancial institutions, but such data are not available at present.

The trend represented by this ratio is one and the same for the previous period. It is indicative that the budget acts for the period 1992 – 2002 included contained separate headings for the expected corporate tax income from nonfinancial and financial institutions. So, until 1995 the ratio is approximately 1:1 (a possible explanation might be that the economy was controlled by the state?). Then, and particularly since 2000 it grows from 1:7 to 1:9, and 1:10. It should be noted that the economic growth in the financial sector is much higher than in the nonfinancial one. Over the recent period the economy of the country is marked by deindustrialization that is a decreasing share of the big industrial companies and the growing share of numerous small companies where tax evasion is more likely to happen. At the same time the financial sector has grown considerably, the banks and to a large extent the insurance companies are nearly all in the hands of the so called strategic investors. Therefore, the 9 fold decrease of the share of the financial sector in raising corporate tax from the business as a whole can have only two reasons:

- Either the financial sector after its privatization has dramatically decreased its efficiency,
- Or it has succeeded to pay less tax at higher profitability.

As far as the first assumption seems inconsistent, the second holds true. We should not, however, try to find criminal action behind this “success”, such as document forgery, etc. More convincing is the explanation that the existing taxation system allows that to happen fully in line with the current legislation.

Therefore the general trend for the households is to bear the greater part of the tax burden, while in the business group the nonfinancial institutions raise considerably more tax compared to the banks, insurance companies and the rest of the financial institutions. The phenomenon is known in the economic literature as “transferability of tax”.⁴ It should be pointed out that this phenomenon used to be the subject of intensive research in the past, but recently the number of such

⁴ See Stoyanov, V. Op. Cit., p. 223 and the next

investigations has considerably been reduced. *The question that has to be addressed here is about the possibilities - first, for the two groups as a whole (businesses and households), and second, for the composite parts of the business group alone - to influence the normative system and the institutions executing it. Or if we reformulate it in terms of the new institutional economic theory: what institutions are expected to be shaped by the described social relations?*

From the point of view of common sense logic, and at least by judging from how things look on the surface, the answer to the above question should be only one – greater influence on the normative system and on the institutions executing it should have the second social group, i.e. the households. *There are two factors that support this statement, each of them being sufficient for such a conclusion:*

1. Firstly, households, according to the description above, provide the lion's share in the revenue side of the budget – for the past years between 70 and 89% of all tax revenue. I.e. this group is the *major Taxpayer*.

2. Secondly, *households*, even less the part that belongs to the first group, that of the business, *make up the substantial part of the population, at all levels, including the electoral group*. Under the conditions of the formally existing democratic political system the majority of the population should choose such rules and institutions that primarily protect their (of the majority) interests and if not, at least provide equal representation.

This is, however, not the case. Business interests, and particularly of some groups, are far better protected at institutional level than the households. *Even more*, within the business and within the households a clearly defined regularity stands out – *the more financial resources a given subgroup has, the lower its not only absolute, but relative share in the revenue side of the budget*. We saw above how in the household group the prevailing and growing with time part of revenues is provided by persons on labour contract, the so called hired employees. The introduction of proportional taxation with a unified rate with direct taxes (known as 'flat' rate for whoever knows why) opens the blades of the scissors much wider. *As far as the direct taxes raised by the businesses are concerned, again we showed above how the ratio between the financial and nonfinancial sector from 1:1 at the beginning of the changes reaches 1:9 at present*. This low participation in the revenue side of the budget reaches its height with the insurance companies, which with income of 1.9 billion leva have paid direct tax of 5 million leva, which is under 1/3 of the percent. For comparison, a pensioner who does not get other income than the pension and does not pay direct taxes, only with VAT and excise duties pays back to the budget at least 25% of its income from pension (according to the share of the used by the pensioner excise goods).

The above statements, that the interests of the households are less protected compared to that of the business, is far from bare words. It is supported by a number of really existing and indisputable facts, more substantial of which are the following:

a) First, the actual fact that both the absolute and the relative financial burden borne by the households, is much greater than that borne by the business;

b) Second, the accommodation of representatives of individual business groups at all levels of power e.g. members of parliament and municipal councilors, ministers and high rank government employees, judges and district attorneys can be seen with a naked eye and is often discussed in all print and electronic media;

c) Open attempts, which proved to be successful, for direct participation in the government through the formation of own parties by individual business groups both at local level in the Black Sea region municipalities and at a central level;

d) The worrying trend not only in this country but worldwide is the consigning of some public-private institutions and functions, including a more legitimate public use of force to private companies and persons. Moreover, this rather worrying trend, to put it mildly, is presented as a sign of democratization and growing participation of civil society in governance. To be precise:

- private security where its officers many times outnumber the official army and police;

- private law-courts as well as, and particularly, the private bailiffs;

- private prisons, existing in other countries and actively discussed in this country;

- private collectors of taxes and of other state receivables, existing in some countries and discussed in this country. Besides, this approach is not unprecedented as it was actively used by the Turkish sultans in the 17th and 18th centuries.

The fact that almost all the press and the electronic media, as well as all the big ones, are owned and controlled by the business itself. It is their "production" that shapes certain public dispositions and attitudes, leading to direct formation of the so called institutions (according to the new institutional economic theory).

Although the above list can be extended substantially, it is clearly obvious here that despite the arguments of common sense logic, presented in 1 and 2, the resources that businesses can use to influence existing formal and informal institutions, and future such, are orders of magnitude greater than those of the households. Naturally the question that arises is, why is it so?

To answer this question we need to recall briefly what institutions are – the formal and informal rules of behavior, existing in a society. These rules of behavior should be divided into *two major groups* – *formal rules (written norms)* and *informal rules*. *The formal rules are known in the law theory as "legal norms", or also "normative acts"* - according to article 1a in the Law on normative acts, these are general rules of behavior, which are applied to individually undefined circle of subjects and have repeated action. They are issued by bodies, stipulated in the Constitution or in a law. Such bodies in this country are the National Assembly, municipal councils, the bodies of the executive power – government, ministries, agencies and committees, and also other institutions, such as BNB, and others. All these bodies issue certain normative acts, such as the Constitution, laws,

regulations, guidelines, ordinances, rules and many others, and the writing of norms must be in line with the Constitution and the laws. The latter have supreme power and the rest, known as the “sub-legislative acts” should comply with them.

However, when we say that certain normative acts, i.e. formal rules, are created by certain state or other bodies, what we actually mean is that *they are created by certain people*, certain individuals. These individuals fall into two groups – individuals, representing and constituting the actual bodies (members of parliament, ministers, heads of agencies and committees, members of BNB Governing Council, and others) and experts. The former are those who adopt and issue normative acts, bearing full responsibility for this, and the latter who assist them in their activity. Therefore, when a certain social group or just a group of people, or even an individual, wants a certain normative act to be created, abolished or amended, these people or individuals have to influence in a certain way the people mentioned above who create the normative acts.

We have to admit that to exert such influence is not that simple. According to the existing rules stipulating the contemporary political system, all those people who participate in the creation of normative acts have been elected and/or appointed in a certain way with the decisive role of the political parties. The parties nominate candidates for members of parliament, municipal councilors and mayors, while the latter nominate the other bodies (ministers etc.), and they all within the existing rules participate in the creation of norms, i.e. the creation, amendment and abolishment of normative acts. We should not forget, however, that the persons who have already obtained the right to participate in the creation of norms, along with the interests of the society and the individual bodies, have their own, personal as well as group interests.⁵ As far as the second group of rules is concerned, known as the “informal rules”, they are the prevalent mode of behavior. Unlike the formal rules, they do not have the support of the enforcement power of the state, but of *the existing prevalent social dispositions* how to act in different situations. It is obvious that the enforcement, amendment or abolishment of such informal rule of behavior is a considerably more difficult task. The main, practically even *the only instrument for this are the media which, we should not forget, are in the first place economic subjects and then – everything else.*

After we have described briefly the dependencies in creating the formal and the informal rules of behavior, let us examine *what means and instruments the businesses use to succeed in securing more profitable for themselves rules of behavior i.e. institutions.* We can see it clearly in the informal rules. The media, as we saw above, have a decisive influence on the formation of the prevalent social dispositions, and they are nearly entirely owned and controlled by the businesses. Of course, things are not so easy and simple. Firstly, from the moment the media engage in activities on shaping a certain social disposition to its transformation into

⁵ In the present paper these interests are deliberately excluded from the analysis as their realization concerns the expenditure rather than the revenue side of the budget.

an informal rule of behavior (for instance what is the accepted behavior and what not, what is prestigious or not, what is right or wrong, etc.). It takes time, sometimes quite long. Next, the businesses are not unanimous, which means fighting among the different media. But there are certain issues that unite the business interests, and therefore the behavior of the media. For instance, to substitute the progressive income tax with a proportional one, to abolish the heritage tax, to make easier the termination of labour contracts, the tax policy as a whole, to enable economic subjects (banks, infrastructural partnerships etc.) to obtain writ of execution for their receivables without filing a lawsuit, and many others. The attitude of the employer organizations was demonstrated during the negotiations of the Three-party Council for cooperation held in March-April 2010, where they easily agreed to raise VAT but not the corporate tax. Finally, another indicative fact is that in May 2010 the National Assembly refused to ban the right of commercial banks to unilaterally decide the interest rate of consumer credits, which is a privilege very rare in EU. To conclude, with the informal rules it is easier to exert influence, but the results are slower and harder to come.

It is just the opposite with formal rules. The act of exerting influence is more-difficult, complex and indirect, but once completed, i.e. once the rules of behavior have been accepted, they immediately become mandatory, guaranteed by the executive power of the state.

Let us examine what *means and tools of influence the businesses use in creating the formal rules*, i.e. the institutions.

1. Firstly, representatives of certain business groups strive to exert *influence on the nomination of their representatives at posts, subject to elections*, such as members of parliament and municipal councilors. The act of influence is directed towards the leaders of political parties, who nominate the candidates, or towards the initiative committees, most often again agreed with the political parties. The wish is the candidates nominated from the businesses (of course secret and informal) to be sufficiently dependable. This is achieved either by using financial means or through potential blackmailing that would reveal some embarrassing facts about the candidate, or most often using both. In some cases the dependence is by kinship, but in that case it is too obvious and therefore vulnerable. In that case as a rule, the political party is paid a certain sum, most often for financing the pre-election campaign. In parallel, a media campaign is launched for the respective nominee i.e. persuading the electorate about his/her excellent qualities.

2. Next, an influence on the behavior of the elected representatives in the elected bodies is exerted mainly in two directions – influence on the creation of certain normative acts and influence on the election of certain positions, such as members of parliament commissions, ministers, members of committees and agencies, etc. The objects of this influence are both the already elected representatives of the businesses in the elected bodies, and again the political parties. The means of influencing, as well as the media support are the same, see 1.

3. Third, it should be pointed out the influence on the recruited in that way state and local authority bodies in their daily activity, mostly in making decisions on concrete issues of economic importance – defining in a certain way the tender requirements, competitions and public tenders, the formation of joint partnerships, substitution of property and others. The means of influence as well as the media support are the same as described in 1. In such activities, however, there is a concrete payment for the operation i.e. it is here that corruption takes its real form.

The reason for the businesses to resort to the above means and tools is clearly visible: in the companies there is a *concentration* of considerable amount of money, which allows part of it to be used for the mentioned influence. Moreover, it should be known that in that respect the business group is not homogeneous. The concentration in question is the highest in the largest companies, particularly in the financial sector. Moreover, the latter operates not so much with own money, but with financial means belonging to someone else, from the point of view of possession. This was specially underlined by Paul Krugman⁶ in one of his last commentaries. Besides, a certain part of the sums is raised as a result of unregulated economic operations. We are fully aware how difficult it is to prove these mechanisms of influence. It is meaningful, however, that public figures such as the Chief Prosecutor and the Minister of the Interior in many interviews state the same on the basis of operational information.⁷

And finally in conclusion an exceptionally serious stipulation should be made. *From all what is said above we should not make hasty conclusions of moral character. The picture is far more complex.* To be concrete, the following important circumstances should not be left unnoticed:

A. What is said so far does not mean that the members of the households, i.e. the lower income group are always conscientious, while the whole business has a goal of tax evasion. The tax evasion and not fulfillment of duties is equally typical for both groups, or at least it is difficult to provide evidence in one or the other direction. Along with incorrect employers there are masses of incorrect employees, and also pensioners. Therefore from ethical point of view a difference should not exist as far as the population shares a similar system of values.

B. As far as from the stated above it follows that as a whole the business group bears less burdens, while its influence is greater, it is of critical importance to differentiate within the group (of the businesses). By definition tax and other economic crimes can be committed only by persons who have opportunities to do it, and such persons are only in the business group. What we want to say is that persons with criminal inclination are probably evenly distributed in all strata of the population, but those of the households simply do not have the opportunity to commit an economic crime. On the other hand, however, members of the business group, which cannot be defined as criminal organizations, participate in too

⁶ See *Krugman, P.* Don't Cry for Wall Street. - New York Times, April 22, 2010.

⁷ See for example the interview with Tzv. Tzvetanov on BNT – The Day Starts on 16.04.2010.

suspicious scenarios. For example, each year the one and the same play is performed – the energy companies announce that they want to raise the price, for example, with 15%, and the State Commission for Energy and Water Regulation allows for 8%. Of course, it is not possible to prove that this is the result of a criminal conspiracy, but the frequent repetition of the scenario makes it impossible not to assume that there are unregulated agreements involved.

C. It has been already shown above how the businesses exert influence on the adoption and establishment of normative rules i.e. of institutions serving their interests. But an important detail should not be missed here – *such influence is exerted not by the whole business, but by a comparatively small part of it*, which, however, is most influential in some periods or regions. Along with that, a reverse problem exists, which has not been mentioned so far – *the business, this time as a whole is the subject of extortion by the so called political class and the bureaucratic machine* in the state and municipal bodies. The extent of extortion is difficult to prove with absolute precision, but numerous materials published recently indicate that in a number of cases the percentage of bribes exceeds the percentage of the normal rate of return. I.e. there is a group of the population that can, in its majority, be formally related only to the household group and that thanks to systematic extortion achieves huge redistribution of the already created GNP. It automatically leads to, although indirectly, to reducing the income side of the budget or to increasing the expenditure (to give an example, organizing public tenders at a price higher than the normal).

D. Undoubtedly, the considerations above (from A to C) modify the picture of the contributions of the different social groups to the revenue side of the budget. They, however, do not change substantially the overall picture, but rather somewhat explain it. And the picture is as follows: the main burden towards the budget is taken by the low income groups. This fact is possibly intuitively felt by the population and creates certain social dispositions and hence informal rules (i.e. institutions), by which it resists the formal rules i.e. the institutions. In conclusion we can only briefly state that a possible measure against this is that the business and the connected households should take if not a greater absolute share of the revenue side of the budget, which is simply unrealistic, at least a greater *relative* share in order to demonstrate social solidarity and sympathy. One way to do it is to revoke the proportional (flat) taxation of the income of physical persons and restore the progressive personal income tax. This, however, could be the topic of another research.

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