

# Chapter 14

## Fiscal Policy and Social Optimization for Developing Nations: Some Thoughts in the Digital Era

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### ABSTRACT

*From the public sector's perspective, one of the healthiest ways to optimize the social and organizational dynamics of a country in the digital era is to adapt the national fiscal policy to the socioeconomic needs of the population. The objective of this work is to analyze what key factors and which strategic proposal nations can follow to improve tax efficiency and, once a fair and equitable redistribution of the collected financial resources is achieved, to offer higher levels of welfare for the entire population in the digital era.*

### INTRODUCTION

From the public sector's perspective, one of the healthiest ways to optimize the social and organizational dynamics of a country in the digital era is to adjust national fiscal policy to the socioeconomic needs of the population. The European Union (from now on EU) is laying the foundations for a single fiscal policy throughout the Eurozone. This budgetary centralization aims to be more efficient in controlling public debt with the final goal of reducing public deficit and corruption. All these good managerial practices carried out in the public sector are possible to achieve, only when Governments do not carry out two-hand policies, defined by the combination of anti-inflationary monetary policy and expansive fiscal policy with the increase in public spending. Although such economic policy is forbidden after

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the signature of the Maastricht Treaty in 1992, some non-Eurozone European governments tend to use fiscal policy for electoral purposes, leading to corrupt practices and the deterioration of their economic fundamentals. The government will avoid these problems by applying a single budgetary system in Europe, which leads to a public deficit's decrease, and a lower need for issuance of public debt. As a result, both economic and social welfare increase to benefit all the countries belonging to the Eurozone.

The European tax model is characterized, unlike the Latin American one, by the existence of higher control carried out by public tax officials by using metadata with the help of Information and Communication Technologies (ICTs), combined with the exchange of Interpol's tax information, tax inspectors and national public security agencies. As a result, Governments can jointly fight against currency evasion and tax fraud. Struggle against fraud increasingly carried out in the European Union with the help of the Financial Action Task Force on Money Laundering (FATF) currently composed of 26 countries, the European Commission and the Gulf Cooperation Council.

The objective of this work is to analyze what key factors and which strategical proposal nations can follow to improve tax efficiency and, once a fair and equitable redistribution of the collected financial resources is achieved to offer higher levels of welfare for the entire population in the digital era. Tax efficiency is framed within an institutionalist vision (North, 1990) that presents a perspective contrary to the populist theory of endogenous development, where economic growth must be autonomous, self-dependent, and centered on the use of national resources. This institutionalist system, primarily supported in the private sector, does not achieve steady economic development. So, in this work, the authors advocate for the use of a neo-institutionalist vision where public-private initiatives are fundamental, because "the strategy to achieve economic development must be based on adequate coordination in the areas of public and private action, because the lack of communication, many of the goals are opposed and contrary to the goals sought" (González, 2009: 94).

These public-private initiatives develop in territories defined by their high degree of economic and social inequality, where institutions only favor the most influential lobbies (World Bank, 2005). As a result, it is necessary for States to be involved in the economy because "the persistence of internal inequalities limits the institutional change that is necessary for the inclusion of the middle classes and the poor use in the processes of change, for economic development and the reduction of poverty. Under these conditions, public and private can cooperate to benefit social groups at risk of social exclusion" (Vázquez-Barquero, 2007: 197).

To achieve the proposed objective, the authors will analyze below how entrepreneurial values are useful and inserted into a Decalogue to implement fiscal-based measures to benefit society. Within these traits, it is worth highlighting the implementation of public-private initiatives for the study of which, in this case, the application of the European fiscal model in other regions, a SWOT analysis is developed. Finally, the authors introduce some conclusions.

## **A DECALOGUE OF MEASURES TO IMPLEMENT THE EUROPEAN FISCAL MODEL**

From a budgetary point of view, the application of the European model in the developing countries' social and economic reality is given, among others, by the following measures:

1. The need to develop an efficient and fair tax system in the redistribution of income;

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