

IS SOCIAL JUSTICE POSSIBLE THROUGH THE USE OF FISCAL INSTRUMENTS?

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Abstract

This article examines the fiscal opportunity for financing social programs through a targeted social scheme, secured by a moderate increase in the value added tax rate. The applied analytical framework, based on the VAT multiplier, defines the relationship between the increase in VAT revenues and the induced change in consumption and the secondary fiscal effects of the redistribution of public resources. The proposed model differentiates households by their income group, with each group being assigned a different consumption rate – the share of income spent on consumer goods and services subject to VAT.

Keywords: VAT multiplier; social scheme; household consumption; income heterogeneity; fiscal redistribution

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