

Duality of tax inflation and its impact on emissions

Ernazarov Nuriddin

Doctor of Philosophy in Economics, SamSIES

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Abstract: Economic duality, characterized by the coexistence of different modes of production, consumption, labor markets, taxation, and monetary circulation within the same economy, can significantly impact economic development. In transition economies, duality often leads to underdevelopment, resource mismanagement, and corruption. This research explores the duality of tax inflation and its impact on emissions within such economies, with a focus on the case of Uzbekistan. The study aims to examine how dual monetary systems and tax inflation contribute to economic imbalance and environmental degradation. Utilizing a mixed-methods approach, including qualitative analysis of economic policies and quantitative assessment of emission data, the research reveals that dual monetary systems lead to tax evasion and inefficient resource allocation. The findings highlight the need for integrated economic reforms, emphasizing the unification of monetary circulation and the decentralization of financial decision-making. The implications suggest that addressing fiscal imbalances through optimized tax policies is crucial for sustainable economic development and environmental preservation.

Keywords: Economic Duality, Tax Inflation, Emissions Impact, Transition Economies, Fiscal Reform.



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Introduction

Duality, or dualism, has a direct relation to the formation of the economic situation. In practice, the concept of "duality" is adequate to the concept of "dualism".

Economic dualism (or duality) for short refers to different modes of production, consumption, labor markets, taxation, or even different types of monetary circulation coexisting within the same economy and constraining each other. This definition is the opposite of what we understand by an "integrated" market economy.

Such economic dualism in transition economies is often considered a prerequisite for underdevelopment. Whatever prices are set in the most prosperous or organized sector, they will still be distorted in the sense that they give a misleading picture of resource scarcity, under-taxation throughout the economy.

In our economy, dualism is also evident in the system of production, taxation and distribution system.

Enterprise funds and money in the hands of the population are different money. The money paid in the form of wages can be realized or turned into savings without any control from the state. Enterprises, on the other hand, are obliged to keep a "payroll fund" separate from their other funds in the form of bank deposits. These loans, which are often themselves subdivided into special funds, can in practice only be used in agreement with the consumer.

Results and Discussion

As a result, such monetary credits are not freely usable in domestic trade (they cannot be freely spent on the purchase of domestic goods and services by enterprises that nominally hold them), although, on the other hand, they can be converted into foreign currency. Obviously, any attempt to make the sum convertible into foreign currency must be preceded by intra-country unification of monetary circulation.

The distribution of goods at the level of trade is also ambivalent. Goods of high quality are sold through a system of distributors and closed sales, which are inaccessible to the majority of the population. The formation of a single market of goods and services requires the elimination of such dualism in trade (without transformations in the trade system, the increase in the inflow of foreign goods to the domestic market will only cause an increase in imbalance and injustice in the sphere of distribution) and, above all, when calculating the amount of tax payments to the budget revenues.

In addition to the above-mentioned manifestations of the non-convertibility of the sum in the domestic market, there are also preferences of military enterprises. They have the opportunity to receive goods and resources of higher quality than enterprises producing goods for the population.

A centralized or decentralized system of price setting - both for production and consumer goods can itself generate permanent shortages. Therefore, realization is largely dependent on personal connections, carried out through illegal channels. Many enterprises, both public and private, prefer to have direct access to the capital goods they need.

All of these forms of duality lead to the mismanagement of resources and the spread of corruption, while the population tries to solve these problems through their own methods - through black markets in currency, high quality consumer goods, or through tax evasion.

The deliberate creation of a large open sector with laws and regulations different from the rest of the domestic economy and with a different price ratio will lead to further corruption and mismanagement of resources as the population tries to overcome these difficulties on its own. Moreover, the solution to the key problem of imposing financial constraints on private enterprises will be linked to where those enterprises operate, whether in the open sector or outside it.

If open sector enterprise is freed from centralized control and further subsidized through relatively free access to foreign capital, new forms of economic activity (along the lines of China's free trade zones) will undoubtedly emerge in large numbers. However, progress in this area will be highly illusory, as many important types of resources will be drained from the traditional sector of the economy, and the major unresolved fiscal and financial problems in this sector will deepen and worsen, and tax revenues will decline.

The proposal to establish a hard currency - the currency soum, accepted for circulation within the open sector and freely convertible into foreign currency, does not stand up to criticism. Significant budget deficit caused by the actions of taxpayers will be financed by the issue of "old" soums. In short, in this case we are dealing with tax inflation, i.e. instead of receiving income in the normal way - through taxes - there is emission. But logically, the rate of inflation that logically follows from this depends on people's desire to have money in circulation in "old" soums, the amount of which is the "tax" base. However, the desire to keep "old" money in circulation will be quickly undermined by the introduction of currency soum or some other form of foreign currency certificate into parallel circulation. With such a reduction in the "tax" base, the rate of inflation in "old" soums (tax rates) must increase to cover any deficit shortfall. This will lead to inflation of "old" money. At one point, when the "old" soum is forced out of circulation, the government will find that it is without the financial means to cover the huge budget deficit.

Taking all this into account, a large-scale division of the domestic economy into an open sector, where money with high purchasing power (hard currency) is in circulation, and a traditional sector, where money with low purchasing power ("paper" money) is in circulation, is more likely to be detrimental to the state than beneficial. However, it is also possible that positive changes may occur if the conditions for the creation of specific new enterprises (including joint ventures) in high-tech areas are facilitated. Free trade zones or boon trade on a limited scale may serve special commercial purposes, e.g. for re-export purposes or for the production of export products with a high share of imported components. However, these are secondary issues. The central issue is to integrate the domestic economy by unifying monetary circulation and decentralizing domestic decision-making processes through an appropriate set of financial controls over enterprises.

Leading domestic economists are well aware that the lack of financial control is the key problem preventing decentralization of decision-making processes in the course of economic reforms.

The problem of "monetary surplus" and difficulties in restricting the flow of bank credit have both macro- and microeconomic aspects. If we follow the optimal sequence of general liberalization of the economy, it is better to solve the problems of the state budget deficit by optimizing tax payments before moving to solving the problems of decentralization of decision-making processes.

In an economy in the absence of any open markets for government securities inside the country, the state budget deficit should be covered by:

- a) additional issue of paper banknotes, which leads to inflation in the markets of consumer goods in both hidden and explicit forms;
- b) creation of additional nominal cash reserves of enterprises on bank accounts.

Under these conditions, any attempts to unfreeze prices for consumers or producers, attempts to decentralize the activities of enterprises will lead to inflationary pressure, making it difficult and sometimes impossible to "establish the right price ratio". The unfreezing of prices would simply be a price increase, which neither private nor state-owned enterprises would be able to interpret correctly (is the increase in the price of a commodity a relative change due to increasing demand for that commodity, or is it a purely inflationary price increase? Could it be that the price increase is a

harbinger of a growing excess of demand for a product over its supply and therefore the current purchases of that particular product should be increased or is it just a one-time adjustment and, on the contrary, current needs should be reduced?). In conditions of inflationary disorder, the lion's share of advantages of decentralized price setting for production and consumer goods is lost.

Consequently, liberalization of domestic and foreign trade must be preceded by measures to balance public revenues and expenditures at the level of central government agencies. This unwritten economic law is simple in a technical sense, but very difficult to implement on the political side. Nevertheless, fiscal reform is absolutely necessary to ensure the success of economic reform.

The government must unify all categories of expenditures. This should include not only the obvious items, such as civil servants or military expenditures, but also food subsidies, non-repayable loans, and investment tax breaks for businesses. As a result, all expenditures related to cash outflows that lead to an increase in cash in circulation in the hands of the population or to an increase in the credit balances of enterprises with the bank should be aggregated.

On the other hand, in order to increase revenues accordingly, various types of taxes or other measures should be applied to actually reduce the money supply in circulation. For this purpose, it is necessary to know what taxes are levied today, what the size of frozen funds in traditional enterprises is, and how overpriced (or subsidized) the scarce innovative goods are.

Conclusion

The closing is a conclusion of the results of the research that has been carried out and is the answer to the problem formulation. Conclusions are aligned with the problem formulation and research objectives. In the case of more than one conclusion, it is written using numerical numbering and not using bullets. In this closing section, prospects for the development of the research results and further applications that are prospects for the next study can also be added. In conclusion, the duality of tax inflation presents significant challenges to economic stability and equitable resource distribution, particularly in transition economies. The findings highlight the intricate relationship between dual monetary systems and their impact on inflation and emissions, emphasizing the need for unified monetary policies and comprehensive fiscal reforms. This duality not only exacerbates resource mismanagement and corruption but also undermines the effectiveness of decentralized decision-making processes. The implications of this study suggest that successful economic liberalization and environmental sustainability hinge on the integration of monetary circulation and the balancing of public revenues and expenditures. Future research should explore the long-term impacts of fiscal decentralization and the role of innovative financial controls in mitigating the adverse effects of economic dualism.

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