

Evolution of Concepts Regarding Taxation and Taxation Systems

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Abstract

The study of taxes has been an important concern of a great number of economists of all times, doctrines and currents of economic thinking. This paper presents some representative opinions of some foreign and Romanian, classic and contemporary economists regarding taxes. This study also provides a scientific selection of the opinions regarding the actual tax instruments, in order to group the main theories about taxes by author, school, thinking current. The Romanian tax system has taken more or less of them in its practice.

Key words: tax system, taxation, tax, tax reform

J.E.L. classification: H21, H22, H71

1. Introduction

The economists and the economic thinkers of the classic period concealed more or less the non-productive character of taxes and their negative consequences on production and consumption during the ascension of capitalism. They generally regarded taxes as a necessary evil, trying to formulate a series of principles of taxation and tax perception. Others provided a theoretical and scientific basis to taxes, especially those collected from the most of the population, trying to justify the increase of tax burden, motivating the problems of fiscal equity through the interests of the ruling class at the time.

In antagonism with the feudal government, the bourgeois economists criticized it and its fiscal system which forced the "third level of society" (the masses) to pay heavy taxes, while the nobility and the clergy benefited from fiscal privileges. Thus, the initial progressive bourgeoisie launched the thesis of introducing the principle of "generality and equality of taxes", the thesis of adopting a fiscal system that stimulated the creation of capitalism, the accumulation of capital and the liquidation of feudal production.

2. Theoretical background

During the evolution of fiscal instruments (taxes and fees), those who set them up tried to justify differently their application. This effort of explanation, by those in government has materialized in a permanent stratification of taxes and fees, according to more or less economic criteria, thus trying to motivate the introduction of certain taxes in time, to motivate the increase of the amount, to motivate the necessity to collect taxes and duties in a certain form (in cash or in kind, on income or on wealth, directly or indirectly).

All these efforts have generally been aimed at obtaining the taxpayers' consent to participate in taxes and duties, especially "when it comes to increasing them in the last period, the public authorities use a wide variety of strategies, which are passed through Parliament and accepted by voters". These strategies could be generalized into two:

- 1) the strategy of convincing the taxpayer citizens that a tax increase is needed;
- 2) the strategy of proving to the citizens that their money, received by the state through taxes, will not be wasted.

We are going to present the main criteria the taxes have been cataloged and classified for, trying to justify the advantages of their introduction in practice. This paper also presents a comparison of the opinions of economists and fiscal analysts from various periods.

We consider the following criteria to classify taxes and duties:

- the classification of taxes from the point of view of collection, if taxes are ordinary and extraordinary

- the classification of taxes from the paying subjects' points of view.

According to this tax classification, the payable (taxable) subjects may be designated as natural or legal persons, who directly bear the payment of taxes and fees in relation to their contributory capacity, that is, in relation to their income or wealth.

Tax classification according to their bearer has completed the stratification of taxes and fees by taxpayer: direct and indirect (the direct ones mean that the tax burden cannot be transfer to another person), and the payer and the bearer being one and the same person. Tax classification according to the practiced quotas, supposed the application of quotas that generated fixed, proportional, progressive and regressive taxes. This differentiation was due to the different contributory capacity of the payers. Tax classification according to the purpose of their collection implied the practice of financial and order taxes. The financial ones were designed with the purpose of obtaining state income, as the income tax, the turnover tax, while the order taxes were aimed at limiting an action, reaching a goal, which did not have a fiscal character, as the extra tax for those who did not have children, on the salary, in order to stimulate the increase of the birth rate.

Tax classification in relation to the institution that administers the fiscal revenues was synthesized, in the form of state taxes and local taxes, according to the destination for which they were collected. As a variant of the evolution of local taxes, Romania practiced additional taxes for a good period of time, which meant an overlap with the existing taxes, an overestimation of the tax burden, when the local taxes did not have the necessary fiscal efficiency. Tax classification of taxes in relation to the settlement method (determining their amount) establishes the following structure: the contribution taxes and the distribution taxes (quota).

In case of tax classification according to the way they are collected, the taxes should be structured in the following categories: taxes collected directly from the taxpayer, having as variants the payment on its own initiative or the presentation of the fiscal bodies to the payers to request the payment; taxes paid directly by taxpayers on the way to the source; fees paid by stamping. Tax classification according to the establishment or constitution of debt securities prior to collection has evolved, whether they are individualized by budgetary debt securities issued prior to collection. There are other possible classifications depending on the criterion of overlapping the component elements or depending on the effects produced.

The main economists in the fiscal field have stated many opinions in this regard. They are reviewed below.

William Petty devoted a number of his researches to tax issues, ruling against the burdensome and inequitable feudal taxes, proposing to reduce the expenses of the country's government, justice and the church (Marx, 1959). But he was wrong when he stated that the taxes levied and spent by the state for shows, pyramids, triumphal arches, imposing constructions do not diminish the national wealth in the sense that the money from the taxes would get into the hands of the merchants who provide materials for the respective works, and from them to the working people. In fact, the wrong assertion starts from his mistaken idea that money would be the only form of national wealth, which through the payment of taxes and their use would remain constant within a country. Correctly, although the mass of money in circulation is not restricted by the payment of taxes, their non-productive use decreases the income of a country for accumulation or productive consumption.

In Petty's conclusion, if non-productive works are financed through taxes, they will, in the future, lead to a cap and decrease of the state's income. Petty had another wrong theory on the role of consumption taxes, because he considered them to be the most equitable means of covering the state expenditure (he did not consider their indirect impact on final consumers, large masses or neglected the important effect of sliding the tax burden). But he won when he decided to establish and collect taxes on the basis of a rational system (one of the first attempts to define the tax system), because only such taxes can be beneficial. He synthesized that idea, as well as those of tax

distribution of the "wealth of the non-producing classes to pass to the producers", in the work "Treaty on taxes and duties", a work in which he listed, for the first time in the economic theory, the eight rules of taxation (we say "for the first time" because four of them belong to Adam Smith). Founder of quantitative methods, he also studied the quantitative income, defining it as a difference between the total product minus the seed and the salary, but he stopped here by denying its qualitative aspect of taxable matter (a fact completed by Marx by the notion of surplus value).

Francois Quesnay, the founder of the physiocratic school, studied taxes as well, criticizing the sphere of the direct ones, which led to the reduction of the productive capital invested in agriculture and to production reduction, but also the sphere of the indirect taxes, which, placed on the consumer goods, caused the increase of the price of goods and the level of salaries. In his opinion, both categories of taxes led to the decrease of the net income in agriculture, a situation for whose rectification he proposed the replacement of all direct taxes with a single one, placed directly and only on the net product of agriculture. But he was wrong (like all the physiocrats), considering that this surplus resulted only from agriculture, not from commerce or industry, sectors he considered "unproductive", meaning that they had to be tax exempt: "because the land rent is considered the only form of surplus value and, because of this, all taxes are thrown on it, it turns out that any taxation of other forms of income is only an indirect way of imposing the property, economically harmful, impeding production. As a result, the burden of taxes, and thereby, any intervention of the state, must be removed from industry and thus released from any state involvement"(Marx, 1959).

Quesnay divides the nation into three social classes: the productive class (cultivators), the owners' class (the king, the landowners and the tithers) and the sterile, non-productive class (industrialists and traders) and distinguishes two types of circulation between them – complete and incomplete. However, he was wrong in dividing the social classes and started from a wrong theory of the net product based on an "order". All these theses are included in the papers: "The economic picture", "The natural law and general principles of an economic governance in an agricultural country". There are some memorable maxims (regarding taxes, expenditures and the fiscal policy of the state) from his last paper (Todosia, 1992):

- the tax should not be destructive or disproportionate to the mass of the nation's income; it should be unique on the land property and its growth should be proportional to the net product;
- the tax should not diminish the sufficiency of the last classes of citizens because they could no longer properly contribute to the consumption of goods which will reduce the reproduction and the income of the nation;
- the attention of the governors should focus more on income increase than on population growth;
- the normal and rational expenditures of the state should not be confused with the excessive and abusive ones, but be correlated with the progress, stagnation or regress of the nation.

The theories of the two physiocrats also influenced the Romanian thinker Nicolae Bălcescu. He theorized the boyars' pursuit for extra work (the peasants' clash) during Romanian exchange economy: "the earth workers are robbed of everything, in the name of the state or in the name of property" (Zane, Bălcescu, 1953). Thus, Bălcescu denounces the burdensome taxation of the time, the disorder in the way of arbitrary collection of taxes and fees.

Referring to the tax reform of Mavrocordat in Moldavia, Bălcescu remarks: "the peasants had to suffer all the burden of the taxes of which they were exempted before, as slaves", "so that the immeasurable size of taxes made the peasants to be the poorest people in Europe" (Zane, Bălcescu, 1953). Bălcescu vehemently criticized the Organic Regulation - "the poverty charter of the people in favor of the boyars", due to the tripling of the direct taxes on the peasants, while the boyars were exempted from all duties to the state. Referring to the indirect taxes, he considers them "another cruelty to the people" (Zane, Bălcescu, 1953), the increase of the salt price to insure the tax revenues from the gentleman's civil list swallowed one tenth of the country's revenues. He criticizes the high rate of the feudal taxes, showing that their non-payment was the cause of peasants' land dispossession (the money dyma), but also the additional levying of taxes in kind (the labor dyma). Analyzing the tax system of the time, Bălcescu characterized it as "feudal oppression", with taxes actually paid in taxpayers' money, as well as taxes paid in kind, such as dymas or tithes (taxes paid in products) and claca (taxes paid in work).

Other economists and economic thinkers of the pre-classical period are the representatives of the classical bourgeois political economy: Adam Smith and David Ricardo, who made important contributions in tax theorizing. Thus, Adam Smith considers that taxes are payments that citizens pay for the services provided to them by the state, a non-productive levy on part of the national income. He emphasizes the negative consequences of taxes on production, due to the non-productive nature of taxes. David Ricardo completed his idea, showing that "taxes in any form offer only the possibility of choosing between several evils". "Any new tax is bad for society (Ricardo condemns the introduction of new taxes in the tax system), because the tax constitutes a new burden on the production and raises the natural price" (Ricardo, 1959). Ricardo also shows that the increase of the non-productive expenses of the state leads to the increase of taxes. He also argues that income taxes do not affect productive capital if production increased, otherwise they will affect capital "which means they will attack the fund allocated to productive consumption" (Ricardo, 1959). The consequence of this repercussion will be the decrease of production, population and state income, resulting in ruin.

David Ricardo ignores the impact of taxes, a process by which capitalists transfer to consumers the taxes that they should bear from their income. Regarding the incidence of taxes (Who is the supporter of direct and indirect taxes?), both Ricardo and Smith offer false variants, indicating that taxes would be borne by capitalists and landowners, that no tax would be charged to the working class. He distorts the problem of the supporter, pointing out that taxes on wages and consumption taxes are introduced into prices and borne by capitalists and agricultural owners from profit and rent. From here Ricardo draws the wrong conclusion and issues the idea that "a tax on wages is a tax on profit, while a tax on basic necessities is partly a tax on profit and partly a tax on wealthy consumers" (Ricardo, 1959).

Another important issue approached by Smith and Ricardo relates to the principles a rational tax system should be based on. A. Smith formulated in the "Wealth of Nations" the following maxims:

1. "the subjects of each state contribute as much as possible to the support of the state according to their possibilities, that is, in relation to the incomes they make". This maximum would be the first approach of the principle of tax justice, of fiscal equity;

2. "the amount of taxes owed by each person should be certain and not arbitrary. The terms, the method and the amounts to pay should be clear for each taxpayer". This maximum would be the first approach of the principle of tax certainty;

3. "taxes should be levied on the dates and in the manner most convenient for the taxpayer". The principle of convenience of tax collection is described here, a principle that would take into account the interests of the taxpayers;

4. "the tax system should ensure the collection of taxes with minimum expenses and be as less burdensome for the people" - Smith issues here the principle of tax yield, which in the subsequent practice was related to the well-known thesis of "cheap government" in which the tax apparatus should not be costly and tax collection should not disrupt the taxpayers' economic activity or remove them from their occupations (Smith, 1965). Adam Smith also made statements against setting high capital taxes because "they are likely to expel the capital of a country, to dry up the sources of income by lowering the capital and the rent of the land by moving it" (Smith, 1965).

He also referred to the consumption taxes, showing that although they raise the cost of living, they still provide the Government with a significant income that could not be easily found in another way. He also discussed two ways of collecting consumption taxes (through state officials or through concessions), considering that the first is better than the second. In chapter II of the "Wealth of Nations", related to the sources of general or public income of a company, Adam Smith pronounces for practicing a multiple tax system supported by each branch of income. He recommends that a state should practice the following taxes: the land tax (in kind and in money), levied in fixed amounts, the tax on houses and windows, the tax on the rent of the building, the tax on profit or on capital income, the tax on profit from certain activities (trade, agriculture, carriages, licenses for retail sale of beer and spirits), the inheritance tax, the income tax (settled on salary).

Adam Smith adds that some taxes reach any income, as the capitation and the tax on consumer goods (the capitation appears as an unfair tax when it is established in proportion to the wealth or the income of the taxpayers, while the taxes on the consumption goods seem to be ethical taxes, being borne by those who consume luxurious objects, embarrassing or discouraging them). D.

Ricardo, in his work "On the principles of political economy and taxation", during twelve chapters, deals with the following important issues related to tax theory:

- defines taxes as a portion of the product of land and labor in a country, made available to the government;
- shows that their payment is made from the capital or the income of the country (if it is paid from the income, it decreases the accumulation, forcing the taxpayer to save the amount paid by a corresponding reduction of the consumption of basic necessities and luxury);
- recommends, for the first time, that the taxes levied on income be collected from the net profit;
- seeks a delimitation of direct and indirect taxes, in real and personal taxes, on wealth and income, in kind and in money;
- considers that taxes in kind must be fixed in physical proportions, while taxes in money must be variable, increasing with income, otherwise they are burdensome and difficult to bear;
- recommends the participation of the following direct taxes: the tithe (on the net product of the land), the land tax (on the income of the lessors), the tax on houses (on the income of the owners), the tax on gold (on the gold in circulation and on the gold produced annually by the miners), the salary tax (calculated on profits);
- in the field of indirect taxes, he recommends: the tax on first-class objects, the tax on luxury goods, the tax on agricultural products, the tax on industrial goods, the tax on tea, the tax on compensation (for imports on glassware) and the protectionist taxes (the customs duties applicable only to the import of wheat).

The classical economists are in positions of premeditated defense of the capitalist system, since they seemed followers of the classical political economy, but later they become defenders of the capitalist society. Through their fiscal conceptions they sought to justify the right of taxation of the capitalist state, and therefore they were split into defenders of the theories of solidarity, equivalence, sacrifice, security and tax neutrality. The vulgar economists treated the taxes and the fiscal policy apart from any connection with the production relations, apart from the connection with the processes of distribution and redistribution of income between classes and social blankets. For example, Thomas Malthus is a supporter of the theory of solidarity. He does not distinguish between the gross income and the net income of the company, avoiding the recognition of the payment of taxes from the net income. He considers that taxes stimulate the growth of national wealth by favoring the process of making the social product.

John Stuart Mill has taken a stance against the progressive taxes, considering that they are against the love of work and the spirit of economy, pushing waste and stopping capital accumulation. He was a supporter of cooperatives, foreseeing for this purpose the fiscal confiscation of the surplus value of the lands. His opposition to progressive taxes stems from the claim that they destroy the incomes of capitalists, incomes that are the result of their work.

The economic literature presents Jean Simonde de Sismondi, Pierre-Joseph Proudhon, Adolf Wagner and Francesco Nitti as supporters of the theory of equivalence. Through the theory of equivalence, they state that taxes are justified in the services and advantages guaranteed by the state. They appear as a counterpart that the citizens owe to the state for the services provided to them by it. In this case, the amount of taxes must be determined by the cost of the services provided by the state or by the value of the benefits that come to the citizens from the services provided by the state. In the first situation, each individual owes a tax equivalent to the cost of the services provided by the state in his interest, and in the second situation the taxation should take into account the value of the services and the benefits of each individual partly from the activity of the state.

In theory, there was also an alternative according to which the tax determination should be made based on the special benefits a person would enjoy under a government authorization (this person would have a special privilege to exercise a certain profession, to benefit from a succession, to do business), which would lead to its imposition according to the value of the special advantages realized by the state's permission to do something. Jean Simonde de Sismondi considers the taxes as a compensation that the citizens pay to the Government for the defense of their person and property. Since the tax is the price "that the citizen pays for his quiet life, it will have to be asked from the one who has nothing. The tax must never reach the part of income that is necessarily to the taxpayer's life". Sismondi supports the idea of a non-taxable minimum, while the rich must bear

taxes higher than the poor, motivated by the fact that they benefit from greater benefits. The tax cost will be aligned with the cost of the service provided by the state or the value of the benefits, hence the name of tax equivalent to the value or cost of the state services. He states that taxes also bring benefits to the poor: the right to sue, the social order, the guarantee of person and property, or the comfortable roads.

His theory of equivalent brought by the state to individuals is subjective, these advantages being difficult to evaluate in money. The theory is also shaken by the fact that the state does not collect taxes from taxpayers in relation to the services they provide, but according to the contributory power of citizens. Pierre - Joseph Proudhon, another theorist of equivalence, argued that in capitalism taxes ceased to be obligatory duties to the state, without consideration, as they were in antiquity. "Tax is a form of exchange between different citizens and a specific producer such as the state, it is the price that citizens pay the state for its services" (Proudhon, 1860). He justifies taxes as means of equalizing the property of transforming the economy, of emancipating the working class (he was the representative of the French petty bourgeois socialists), of leveling the wealth, of reorganizing the capitalist society on the principles of justice, freedom, wealth. Adolf Wagner characterized the taxes as compulsory contributions of the individuals destined to cover the general expenses of the state which it perceives by virtue of his sovereignty, as a consideration and reimbursement of the expenses related to the benefits made by the state.

Apart from the purely financial role, he attributes the political and social role to the tax "the tax exercises a regulatory intervention in the distribution of national income" (Wagner, 1909). He supports the theory that the tax can serve as a means of correcting the distribution of national income, in order to distort the nature of the exploitation of capitalist workers in the sense that this would have been the unfair effect of the distribution of national income that the state could legally remove. Wagner also contributed to the theory of progressive tax justification. In this regard, he says that the income of each taxpayer can be divided into two: a part for the expenses necessary for it, and a part for the luxury expenses. This second part the state should impose through progressive taxes, in proportion to the current income of this part.

The theory of equivalence, debated by these economists, has been subjected to the criticism of the contemporary bourgeois who have departed from the thesis that is not verified in practice, that taxes represent the price of state services for the population. This is because public services cannot be measured or appreciated quantitatively, they cannot be commensurate and distributed among individuals, and in some cases only certain members of the society benefit from them. Also, the equivalence thesis is not justified in the case of tax-exempt taxpayers, because equivalent exchange relations do not work between the state and them. In addition, when these taxes are used for other non-fiscal purposes, for example, the support of the national currency rate, the state does not provide any direct service to the population. The supporters of the thesis start from the false assumption that the bourgeois state is an institution above the classes, organized for the fulfillment of the public needs, of services for the benefit of all, avoiding to notice that the same state subdues the masses of taxpayers. Therefore, we consider that the equivalence theory could justify at most the proportional imposition and not the progressive one.

Montesquieu and A. Smith are, in fact, the founders of this thesis, but they called it different, the theory of exchange or the theory of interests. In the evolution of taxation, the theory of equivalence had as a variant the theory of security, which argues that taxes are the insurance premium for the taxpayers' lives and assets, based on a "contract" between citizens and the state, for which they pay some kind of insurance premium, in the form of taxes. The measure of these premiums, therefore of taxes, is given by the size of the taxpayers' goods and the quality of the various citizens. This thesis was contradicted due to the fact that the state does not assume any formal insurance commitment towards the citizens. If it existed, the state should compensate taxpayers whenever their property is stolen or destroyed.

Emile de Girardin, is another vulgar bourgeois economist who in his paper "Socialism and Tax" states that taxes are grouped in the form of single taxes, capital tax and voluntary insurance premiums to be paid against any risk that impedes the possession and use of the insured. In this sense he recommends "giving up any tax that does not represent a guarantee against certain risks, proposes to abolish all taxes except the premiums, because the distinguishing feature of the tax is the constraint, while the insurance would be voluntary" (Marx, 1959). He also states that replacing

taxes with insurance would lead to the disappearance of commercial and agrarian crises, losses, bankruptcies, all defects of the capitalist production.

Marx criticized his thesis by saying that: "the bourgeois state is nothing more than a society of mutual assurance of the bourgeois class, both against its various members, taken individually and against the exploited class, an assurance that inevitably becomes more and more expensive; changing its name does not change the conditions of this insurance "(Marx, Engels, 1960). Girardin's theory, the theory of security, was also supported by Montesquieu, who regarded the tax as a part given by each citizen in order to be able to safely have the other and to enjoy it in peace. The vulgar bourgeois economists also launched the theory of sacrifice as a variant of the theory of solidarity. In this case, the reason for the tax lies in the very nature of the state. According to this theory, the state is a necessary product of historical development, while the tax is a necessary product of the relationship between the subject and power. As a superstructure institution, the state would have the prerogative to ask its subjects to make a sacrifice in order to cover public expenses.

In practice the theory of sacrifice had three variants:

- the theory of equal sacrifice, which states that the absolute utility sacrificed by taxes must be equal for all taxpayers;
- the theory of proportional sacrifice, a variant that considered justified a proportional loss of the individual utility compared to the total one by the payment of taxes;
- the theory of minimum sacrifice, in which it was stated that taxation must lead to a minimum burden for all tax payers.

The theory of sacrifice was based on the theoretical research of the Austrian economic school, based on the conception of the final or marginal utility (this expressed that the utility of some goods would be in inverse proportion to the volume of supplies of material goods). The theory of marginal utility was countered by K. Marx, who said that the sacrificial unit must be susceptible to measurement, so taxes cannot serve as a means of comparison. The vulgar bourgeois economists have also propagated the theory of tax neutrality, which states that taxes must be set so as not to alter the relationships between taxpayers existing before the tax is paid, so that the economic and social realities between members remain neutral. This theory defends capitalist class interests, in the sense that it does not follow the criterion by which the tax burdens are distributed on individuals and the consequences of applying the distribution.

3. Research methodology

The study was conducted through the following methods: *analysis* of data and information from books and specialized materials, the comparison between the tax doctrines of the economic schools, *deduction*, drawing conclusions based on the study.

4. Findings

The study was based on scientific abstraction and historical scope methods. The essential aspects of the economics life are defined with the help of scientific abstraction methods. The phenomenon investigated is cleansed of facts and features less important, accidental, thus reaching its core. The historical method starts from the truth that any economic phenomenon has a historical evolution, that is, it appears, develops, then disappears or transforms into something else. Based on them, were formulated the conclusions of study.

5. Conclusions

Following the theories set out above about taxes by vulgar bourgeois economists, one may say that they tried to show that the capitalist state would have a productive character called to perform services for the population. The increase of tax volume or number, justified it as a result of the development of the productive activity of the state. These economist thinkers presented the state in a pity situation, that of sacrificing all individuals to protect them.

The vulgar bourgeois economists tried to show that the capitalist state would have a productive character called to perform services for the population. The increase of tax volume or number was the result of the productive activity of the state. These economist thinkers presented the state in a pity situation, that of sacrificing all individuals to protect them.

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