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Some Aspects Regarding the Fiscal Approach in Economic Classicism

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Abstract

Finances have appeared on the stage of social-political life on the background of the development of the production factors and of the monetary relations, with the appearance of the state and the establishment of its public power as a collector of duties and taxes.

In this article, the author highlights the evolution of economic thought through which it has been possible to efficiently integrate public finances from taxes and duties within the framework of economic classicism.

The purpose of the research resides in the evolutionary study of the fiscal relations through the prism of the economic thought.

Key words: tax administration, fiscal policy.
J.E.L. classification: E62, H3.

1. Introduction

The functioning and development of a state is based on its ability to ensure economic and financial stability, defense capacity, development of social sphere and raising the living standard of the population.

The performance of these functions is impossible without creating a stable tax base and ensuring a good tax administration.

Under these conditions, the state aims to carry out two important activities in order to be functional: to create an efficient financial mechanism and to approve a rational fiscal policy.

At macroeconomic level, fiscal policy is part of the state's general economic policy, permanently acting on the process of collecting public financial funds, so that, on the one hand, necessary revenues are obtained to cover the needs of the state and, on the other hand, certain strategic objectives for the economic and social development of the country are achieved through sectoral financing.

Since the fiscal approach has changed depending on the state's economic policy, the author aimed to elucidate the most important trends that have been attested over time in relation to the evolution of economic thought.

2. Theoretical background. Actuality of the proposed topic for investigation

By the essence of the scientific doctrines described over time, the state is assigned the role of legislator and supreme coordinator in the political, economic, financial and social field.

For a state to be functional, it needs to be able to finance its projects of social, economic, political nature and, last but not least, those of defense of the integrity and sovereignty of that state.

To fulfill its obligations as a state, it became necessary to create a mechanism to ensure tax collection.

Thus, starting from the analysis of the causes and natural conditions of the economic mechanism, followers of economic doctrines have emphasized through taxation the usefulness of the process of formation, distribution and redistribution of public financial resources.

All these considerations determined the author to make an incursion in the financial and fiscal field, from the point of view of the doctrinal approaches.

Arguments that are required for examining this topic are:

- evolutionary analysis of economic thought in relation to the field of public finances;
- studying the origin of the concept of taxation;
- elucidating the role of the state in the efficient management of public finances;
- formulating the contemporary principles of taxation;
- analysis of the gaps presenting major problems for an effective fiscal policy.

The theoretical and methodological support of the investigated topic was provided by the works of the scientists, who carried out research in this field.

3. Research methodology

When elaborating this article, the author used 3 research methods, namely:

Fundamental research allowed the evolutionary elucidation of fiscal relations in different periods, reflecting the trends of change attested in the researched field.

Research for development aimed at using those processes and devices that can directly influence the practical activity in the field of tax administration.

Applicative research had as objective to provide data for directing the practical activity in order to increase the methodical activity. As a result of applicative research, conclusions were formulated about the role of taxation in ensuring the financial security of the state.

4. Results and discussions

The evolution of fiscal relations has its beginnings in ancient times. These were formed and determined in the form of collections of different types. Their payment could have a religious character, such as offerings and gifts, master-subordinate relation, as well as in the form of tribute, contribution etc.

The stage of knowledge and understanding of the fiscal process has its origin in the first works of the physiocrats, and economic liberalism is attested as the current of thought that marked the history of economic theory and practice.

Developed during the period between the years 1750-1780, the liberal current has been noted by approaching economic life in terms of production, natural wealth, and not least the existence of social institutions.

The economic literature from the classicism period underlines the idea that all sources of income are taxed, and the taxpayers are without exception the citizens of the state.

The establishment of scientific concepts about taxes as an object of administrative decisions is reflected practically in all fiscal theories. The evolutionary development took place simultaneously with the development of different directions of economic rationale, which reflects the changes in the production relations and the level of state participation in the reproduction process (Ricardo, 1193, vol.1).

In fiscal culture, the concept of "taxation" has been assigned multiple valences of linguistic, psychological, economic, legal or political nature.

This aspect is emphasized throughout the development of economic theories, documented in the reference works of the great thinkers, such as: T. Hobbes and F. Locke, A. Smith, G. Akerlof and others.

T. Hobbes and F. Locke are those who place the intrinsic principles of human nature at the basis of the state power. In this framework, the thinkers studied social phenomena and stated two principles regarding the physical and spiritual actions of the human being, respectively: the principle of usefulness and the principle of association of ideas.

A. Smith is the one who, in a philosophical approach, in the work „Theory of Moral Sentiments", has associated morality with the economic component. The author states that „*the natural order*" is achieved „*through the free play of human passions, assuming that public authority does not pose obstacles*" (Smith, 2017, p.62).

Continuing the logic of statement of the classic of Scottish origin, primary sources of income formation are: wage, profit and rent. In this context, the methods of purchasing resources necessary for the functioning of the state apparatus were designed on the basis of the principle of fiscal neutrality. This principle, in Adam Smith's thought, represented „*the tax indifference to the economic structures of the means of production*" (Popescu, 2004, p.135-136). At the same time, the collection of taxes should not affect the mechanism of price formation, economic-social relations or the balance between state revenues and expenditures, considered the main requirements of the management of the public finance system.

With the publication of the work „The Wealth of Nations", Adam Smith outlines the inseparable connection between the legislator and the individual. Its content gives the idea of establishing measures aimed at ensuring the income of citizens, and the society the possibility of purchasing the resources necessary for the maintenance and functioning of public services (Smith, 2014).

Nobel laureate (2001) George Akerlof in „Economics and Identity", incorporates the psychological and sociological components of identity into an economic model. The reasoning of the model are two of the factors that influence the economic results (Akerlof, 2000, p.715-753).

In his work „Evolution of Economic Thought" (Popescu, 2004, p.135-136), Gheorghe Popescu analyzed the four principles of taxation, described by Adam Smith in „*Of the Revenue of the Sovereign or Commonwealth*". Author's attention is focused on the state's revenues, expenditures and public debt. Thus, within the scope of the approach of this subject, Adam Smith mentions that the establishment and levying of taxes must be carried out under the conditions of:

1. ***Equality***, consequently, the tax is levied proportionally to the payment capacity of individuals;
2. ***Certainty***, levying under the conditions of the law and not arbitrarily;
3. ***Convenience***, assumes that the payment method and periods are convenient for the citizens;
4. ***Economy***, in other words, the levies must be reduced to the minimum compatible with the needs of the state.

The scientific approach outlined by Adam Smith and his predecessors gives taxation a very large room for maneuver and gives the specialists in the field the opportunity to define this concept.

John Mathieu in 1999 in his work „La politique fiscale" notes that taxation is an effective tool in the service of a state, which embodies a certain vision of life in common, organized by components of power specialized in management of public services, for the proper functioning of which it is necessary to collect financial resources.

Coordinated by the idea that economic initiatives are based on individual initiatives, Adolph Wagner builds a system of income redistribution by using some tax-specific tools. Practically, in his opinion, the role of state in economic activity is that of a "*distribution regulator, and through the legal organization of the circulation, it guarantees and ensures its means of direct participation in the production of goods*" (Wagner, 1892, vol.1).

After extensive analysis, the German economist manages to prove that the relationship between the state and the economic field is a dynamic and relative one. This framework offers the possibility to formulate a "law" of the increasing extension of state's activities, materialized in the real increase of public expenditures, which is based on the growth of the gross product and its redistribution to the public authorities.

Studies developed during the classicism are supplemented by the neoclassical synthesis of the fiscal theory. New theories introduce new concepts, such as economic equilibrium or factors of automatic stabilization.

Regarding the general equilibrium, Leon Walras mentioned that this can be achieved under the conditions given by the existence of perfect competition (Blaug, 1986, p.262). According to the model developed by the French researcher, this condition is based on the economy that uses the landed, personal and movable capital, these being placed under the conditions of a market for final goods and productive services.

Using mathematical reasoning, Walras notes that when supply is equal to demand, a general equilibrium state is reached in both markets and for each good or service.

Adjacent to Walras' acceptance, the theory of general economic equilibrium is developed by Vilfredo Pareto. He studies the real conditions of achieving equilibrium, appealing to the applied economy.

The economic thought of V. Pareto is guided by the interest of knowing the uniformity of economic phenomena. One of the most important contributions to the development of economic science is the formulation of two criteria for the optimal allocation of resources. These criteria are: relative criterion and absolute criterion. Both are based on the distribution of goods between individuals, so that any new modification of the allocation will lead to optimal collective welfare (Pareto, 1897, vol.1).

The fiscal and budgetary value emerging from the formulation of these criteria is that an excessive fiscal burden leads to a decrease in the collective well-being, because the negative impact of the fiscal constraint cannot be fully compensated by another positive impact due to the services provided by public authorities.

Continuing the logic of statement, our study continues with knowledge of the neoclassical equilibrium theories, introducing the Keynesian model. The research conducted by John Maynard Keynes was determined by the economic recession of 1929-1933, a situation that forced the reformation of the economic thought of that period. In this context, Keynes' theories demonstrate the importance and role of state intervention in the economy.

According to Keynes, the state's interventionist policy can significantly reduce the economic distortions. At the same time, the researcher states that registering an equilibrium between demand and supply and applying a combination of fiscal and budgetary policies, such as a relaxing fiscal policy correlated with an expansive budgetary policy, contribute to ensuring the relaunch of economic growth.

Also, according to Keynes, „*the use of a discretionary fiscal policy will directly affect current income when the market is facing price rigidity, excess capacity and existence of liquidity constraints of economic entities, but also of households*"(Keynes, 2012, p.142).

In building his theories and models, Keynes uses the instruments of fiscal and budgetary policy. Taxes, public expenditures or budget deficits are considered by Keynes as the main factors with direct influence on savings, investments and unemployment.

To demonstrate how the state can influence the state of equilibrium or disequilibrium in the economy, Keynes introduces fiscal instruments in his demonstrations. As in the case of multiplying supply by means of public expenditures, by handling taxes, duties, etc., a process of revenue multiplication can occur.

The conclusions of the Keynes' analysis indicate that the stimulating effects of public expenditures are greater in the case of their financing through loans or monetary measures than the increase of taxation.

The concept regarding the interventionist role of the state, formulated by the economist J.M. Keynes, has found followers around the world. Taxes, duties, public expenditures have been used as instruments to promote economic growth. New mechanisms of market economy functioning have been created in which fiscal instruments play a quite important role.

Keynes' studies were deepened by the American professor Paul Anthony Samuelson, a Nobel Laureate in Economics in 1970.

In his researches P.A. Samuelson emphasizes the role of the public budget in ensuring the stability of the economic and social activities of the modern period.

Samuelson states that "*taxes provide the state with the resources needed to purchase public goods. Taxes also serve, to an equal extent, to finance the transfer expenditures, i.e. the expenditures for social assistance, which change the distribution of national income*." (Oprea, 2013, p. 483). As a result, the way in which the tax liabilities are established influences the final distribution of individuals' income.

According to Samuelson's opinion, fiscal and budgetary policy measures can bring significant changes to the level of equilibrium. Thus, the application of an inadequate fiscal and budgetary policy can lead to the impossibility of the evolution of the business cycle. Otherwise, a policy adapted to the current economic situations contributes to mitigating the registered disequilibrium and restoring the stability climate.

In the context of his research, the system of automatic fiscal stabilizers has a special relevance. Samuelson considers that the action of the automatic stabilizers „*contributes to the budgetary consolidation, but does not represent the solution of the absolute settlement of the disequilibrium”* (Oprea, 2013, p. 485).

Depending on the phases of the business cycle, the level of taxes and public expenditures can lead to the following situations, described in *Table 1*.

Table no. 1. Phases of business cycle

№	Phases of business cycle	Characteristics
1.	Obtaining a budget surplus	This situation can be registered in the growth phase of the business cycle
2.	Obtaining a budget deficit	This situation can be registered in the recession phase of the business cycle
3.	Increasing the volume of cash of citizens	It is recorded during periods of economic well-being
4.	Decreasing the volume of cash of citizens	It is recorded during periods of economic decline
5.	Political interference	Influence of fiscal-budgetary policy, based on the context of political decisions.

Source: Adapted by the author after (Oprea, 2013, p. 485)

From the perspective of other authors, taxation represents a set of rules and methods of establishing public funds, of redistributing national income, in order to ensure the goods and services of life.

As a generalization of the above mentioned, if we analyze the content of the definitions noted in the specialized literature, we can state that for decades the vision on taxation has been permanently related to taxes.

Undoubtedly, the principles of taxation originally formulated by Adam Smith recorded a progressive character. At the moment, we can affirm, with certainty, that the tax system is guided by 13 general principles, presented in ***Annex 1***.

By setting up fiscal policy in accordance with the principles described above, the state aims not only at establishing its revenues or financing public expenditures, but also at „*harmonizing the interests and behaviors of the taxpayers with those of the authorities*”, notifies L. Batrîncea in her work “Fiscal Behavior – Theoretical Approaches and International Comparative Studies” (Bătrîncea, 2016, pag.54).

We can state that the economic theory of taxation is not limited only to the analysis of the effects of tax on taxpayer behavior. It also has a normative dimension, whose roots are found also in the history of political economy.

In our opinion, the optimal taxation theory should be aimed at choosing those taxation rules and methods for distributing the burden between taxpayers, which meet one or more predefined criteria.

As a result of the research, we identified two criteria that dominate the literature on optimal tax: the efficiency of the allocation and the inter-individual equity. These criteria always lead to conflicting tax options. For this reason, the choice of optimal taxation is inevitably confronted with an “equity-efficiency dilemma”, but other characteristics can be assigned to an ideal tax system.

According to the group of authors: Jessua C., Labrousse C., Vitry D., Gaumont D., „*simplicity, flexibility, transparency, financial efficiency or horizontal equity are the additional criteria that the economic theory of optimal tax generally ignores, but which are not irrelevant*” (Jessua, Labrousse, Vitry, Gaumont, 2006, p.391).

If we look only from the point of view of economic efficiency, the ideal taxation is the one that does not distort the system of relative prices between goods and factors, between the current prices of goods and factors and their future prices.

The recommendations of the economic theory regarding the taxation of the individuals’ income vary considerably depending, on the one hand, on the objective pursued (vertical equity, horizontal equity, combination between vertical equity and economic efficiency), and, on the other hand, on the parameters related to the individuals’ behavior (especially the value of the elasticity of substitution between free time and consumption, the distribution of capacities between individuals) (Jessua, Labrousse, Vitry, Gaumont, 2006, p.391).

The recent literature on optimal tax has developed in two additional directions. The ***first direction*** concerns the advisable degree of decentralization in tax matters, that is, the problem of determining the most appropriate way of distributing taxes between different levels of public institutions. The ***second direction*** of development of the literature on optimal tax is focused on the study of the ideal trajectory of fiscal reform. The results show that fiscal gradualism, which seems to be about common sense and which, moreover, is often elevated to the principle of action by governments, is not always possible or desirable if the economy suffers from prior fiscal distortions.

The theory and practice of fiscal policy demonstrate that for a fiscal policy to be effective and reduce economic instability, it must stimulate the economy during the recession and restrict it during the expansion of inflation. But because of the gap issues, it is highly unlikely that fiscal policy will ever be effective.

According to the university professor Tatiana Manole, the three gaps, which present the major problems for an effective fiscal policy, are: (Manole, 2016, p.659):

1. ***Recognition gap*** – the time needed to recognize that there is a problem in the country's economic and financial situation and needs to be solved.
2. ***Administrative / legislative gap*** – the time needed to implement a policy to correct economy's course.
3. ***Impact gap*** – the time needed to change the fiscal policy to affect the economy.

5. Conclusions

The contemporary tax system must be equitable, efficient and understandable. Any fiscal measures should be oriented towards maximizing revenue collection and efficient spending of public money. But this aspiration must be established on the basis of respecting the rights and obligations of the parties, that is, the taxpayers and the state authorities.

Many good things have been done in the field of taxation in the Republic of Moldova, which deserve to be recognized as such and maintained in the future. However, we cannot fail to note that there are still many ambiguities within the tax legislation, the tax system, but also at the level of the political decision makers in promoting a fiscal policy and an organizational framework that would lead to a greater and more predictable stability of the breakdowns to the National Public Budget to which taxpayers are subject.

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Appendix 1

Contemporary principles of taxation

№	**Contemporary principles of taxation**	**Characteristics**
1.	Principle of equity	The application of this principle implies that the taxpayers pay taxes proportionally to the amount of the obtained income.
2.	Principle of certainty	The tax that any person is obliged to pay must be well specified. The time, method and amount of payment must be clear and obvious, both for the taxpayer and for any other person.
3.	Principle of convenience of levy	Principle of convenience of levy, includes the aspect according to which, taxes must be levied in a manner convenient to the taxpayers and on the terms favorable to them.
4.	Principle of tax efficiency	Any tax must be designed in such a way as to withdraw and alienate from the population’s pockets as little as possible, and the collection of taxes should be made with a minimum of expenses from the state.
5.	Principle of tax stability	The level of tax efficiency should be kept constant throughout the business cycle.
6.	Principle of uniqueness	Any income must be subject to a certain tax only once within a certain period of time.
7.	Principle of elasticity (tax flexibility)	This principle implies the possibility of permanent adaptation of taxes to the needs of the state’s revenue policy.
8.	Principle of proportionality of taxation	Compliance with this principle is a form of manifesting the equality of income with respect to taxes, because it implies ensuring a balance between the income subject to taxation and its amount.
9.	Progressivity of taxation	Contrary to the principle of fiscal equity, the progressivity of taxes implies the increase of the level of tax rates as the income increases, i.e. the object of taxation.
10.	Principle of simplicity of taxation	It consists of applying simple techniques for determining the tax and an easy way of collecting it.
11.	Principle of neutrality of taxation	It involves applying uniform treatment to all taxpayers for similar operations.
12.	Principle of reality of taxation	According to this principle, the exact calculation formulas, specific to each type of income and category of tax will be used in determining the tax base and establishing the tax.
13.	Principle of morality of taxation	This principle requires compliance with fiscal equity that implies: applying the tax according to the nature and size of the taxable object; establishing the tax burden according to the personal situation of the taxpayer; legislating tax by establishing a non-taxable minimum.

Source: Adapted by author after Solomon (Solomon, 2015, pp. 29-31)