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Some considerations regarding the effects of taxation on the economy

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Abstract

This research aims to highlight a number of aspects related to the effects of taxation on the economy. The main topics of investigation are related to the analysis of the ratio between traditional taxes and environmental taxes and, to the analysis of the taxes paid by the employers and the employees. The study is focused on the situation of some European Union countries, and the results are discussed taking into consideration the current policies and trends, having in mind the connection of taxation with incomes and development level of countries.

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1. Introduction

In many countries of the world an unfavorable evolution of social and economic indicators is recorded and the economic growth register a stagnation or even a decline, and the situation is due to, in particular, the economic crisis and its effects. In this study an analysis of theoretical approaches of taxation is developed, which should be an

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instrument of economic policy that public decision-makers may use in order to stimulate development. For planners, decision/policy makers, the economic environment in general is important, thus the reforms in the taxation/tax policy area to help stimulate sustainable economic development. Also, taxes can be levers which aim to counter adverse effects of the economic crisis, and the challenge is to find the optimal solutions to change the tax system.

The objectives of the paper are the analysis of some aspects related to the effects of taxation on the economy, and the ultimate desideratum is to highlight the connections between various types of taxes, and between GDP per capita and tax rates for employers and employees. The paper aims to deepen a number of issues related to the values of the ratios of various taxes collected at EU level and the existence of some correlations between tax rates and economic development. In the third section of the paper, the authors examine the values of the ratios between traditional taxes and environmental taxes. In the fourth section, the tax burden for employers and employees is highlighted, focusing on the link between taxation and the level of development of countries. The paper ends with some conclusions and recommendations regarding the need to use taxation to stimulate economic development.

2. Theories regarding taxation and relationship with economic development

A fair tax system should follow a number of general principles. These principles are important also today and are considered when seeking the development of proposals for improving the aspects in the sphere of taxation. According to Smith (1904), these principles refer to the fact that:

- citizens of a state should contribute to support its expenses, according to their income;
- taxes should be clearly stated, not to be arbitrary, being necessary to determine the exact time, manner and amount to be paid by the taxpayer;
- tax should be levied at the time or in the manner most convenient for the taxpayer;
- taxes should be as little burdensome for payers and their collection should be done with minimal expenses from the state.

Over time, with developments in the field of taxation, various theories regarding the necessity of taxes were developed, being brought into question issues such as the role, type, imposing of taxes according to the situation of the economy, compliance with principles related to their establishment and collection, etc. Thus, there are theories that are related to the idea of *state as a result of the social contract* which emphasizes that taxes are the price of services provided by state, prices set through coercion to government services. According to Jéze (1922), Hansen (1941), Gliga (1992), Şaguna et al (1996), in this case, the state has a role of a „night watchman”, ensuring public safety, its essence being the contract between state and citizens.

According to Proudhon (1861) and Corduneanu (1998), another theory refers to the fact that fair form of taxation is *proportionality*, the progressivity being an illusion to the objective of acquiring social justice. In the literature theories of financial arguments are found, with reference to *the relationship taxes-public spending*, and it is pointed out that taxes are claimed by state in the virtue of its sovereignty and are designed to cover the expenses. In this case, taxation theories argue that citizens causes a number of expenses that need to be funded by those who cause them. According to Jéze (1922), Gliga (1992), Şaguna et al (1996), the payment of taxes is a duty of citizens in order to ensure the existence and development of society, the tax being a payment of money, alleged to cover the expenses of general interest, or that the tax is the method of allocating budgetary debts between citizens, according to each individual's possibilities.

Another group of theories refer to the fact that some taxes are designed to be used as *tools in the process of correcting negative externalities* caused by market imperfections, such taxes being known as Pigouvian taxes. According to Pigou (1920), Pigou (1928), Sandmo (2000), these taxes appeared as a necessity of correcting externalities and have been extensively debated by specialists, especially in cases involving the resources to prevent smoke emanating from factory chimneys which, in large cities, are causing loss to community (degradation of buildings, expenses with cleaning rooms, for the provision of additional artificial light, etc.) or in cases of the use of taxes on alcohol and gasoline. To increase efficiency by correcting externalities with tax incentives, the public decision-maker may adopt "correction" tax measures.

Other experts believe that it is necessary to impose a tax on currency transactions to reduce volatility in currency markets, known as "the Tobin tax". According to Soros (2002), this tax is intended to discourage currency speculation and to reduce market liquidity, while massive transactions may have a greater impact on the exchange

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