

ABOUT THE VIRTUES AND VICES RELATED TO THE FISCAL POLICY

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Abstract: The paper aims to identify and evaluate the fiscal policy in terms of its virtues and possible vices. Generically, the virtues of the fiscal policy could be defined as the morality of enforcement, the positive effects on the society and on the formation and shaping of taxpayer behaviour, while the vices might target several negative aspects such as informal economy, tax evasion and fiscal fraud. The expected results highlight the virtues of the fiscal policy, the need to stress and disseminate them, in contrast with highlighting the vices of the fiscal policy and the need to control and curb them.

Keywords: fiscal policy, virtues, vices, fiscal regulations, behaviour

Introduction

The analysis of the virtues and vices manifesting in relation with the fiscal policy must start with the presentation of the two terms and with the arguments for transposing these traits, specific to the human being, at the level of the fiscal policy.

The issue of virtue gets different shades in the philosophic literature, either as a label of the man who has special qualities (intellectual, moral, etc.) or as *a priori* assignment, by descendance, of merit to a person, either as educational goal, as science, with religious or lay meaning, or as attribute of acknowledgement of excellence professional attributes.

Synthesizing, we appreciate virtue, in agreement with the above, as being a cumulation of positive traits displayed by the individual, by dominant moral values, by trend/concern towards improving one's morality and by spreading these positive values within his/her group and, consequently, within the society.

In contrast with the virtue, the vice is a cumulation of negative traits displayed by an individual, i.e. lack and/or deviation from moral values, performing acts/actions which are bad for him/her and perpetuating them within his/her group and, consequently, within the society.

Having these landmarks on virtue and vice, synthesized by the existence of higher moral values or by their absence, I consider that the fiscal policy can be personalized with these traits. The arguments in favour of this personalization are:

The objectives of the fiscal policy (ensure the financing for the supply of public goods and services to the citizens, such as redistribution of incomes among the members of the society) correspond to moral values which are perpetuated within the society, to the benefit of its members;

The regulation and implementation of the fiscal policy, actually of the fiscal system, are the most sensitive elements of the fiscal system, elements which are sometimes accompanied by different interpretations, by the lack of full coverage of the nature of the economic activities, or are exposed to the phenomenon of corruption, tax evasion and fiscal fraud, which establish the grounds for adverse acts/facts, by deviation from the moral values, and their perpetuation within the society.

The paper will further develop these aspects regarding the virtues and vices of the fiscal policy, mentioning and discussing fiscal issues that describe these two situations.

Virtues of the fiscal policy

Our approach in this section of the paper will relate particular elements and objectives of the fiscal policy, as well as taxpayer behaviour, to the concept of fiscal morality, as vector of the virtue. The concept of fiscal morality, in our opinion, must be approached from two perspectives, i.e. at the level of taxation by the sovereign state and at the level of payment by the taxpayer.

Regarding the levying of taxes by the sovereign state, we consider that this is a moral action, as shown by the functions of the taxes:

Function of financing – the morality of this function resides in the fact that the levied taxes form the public financial resources needed for the supply of public goods and services which are distributed through the public authorities. This function/action is a virtue of the fiscal policy because the public authorities provide public goods and services which meet, at an adequate qualitative and quantitative level, the cultural, educational and justice necessities for the entire society, as well as the national defence.

Function of distribution – the morality of this function resides in the fact that the levied taxes and the expenditure from the budget made by the public authorities meet social needs, by the distribution and redistribution of incomes and wealth between natural and legal persons, when the natural distribution and/or the manner of assignation of the production factors and forms of

property don't converge with the necessities and with the social equity. This function/action is a virtue of the fiscal policy because the public authorities provide mechanisms of distribution and redistribution of incomes among the members of the society, trying to ensure permanently the distributive equity;

Function of stabilization – the morality of this function resides in the fact that through the taxes and the expenditure from the budget, the public authorities aim to ensure the macroeconomic stability and growth, by providing a high employment rate of the labour force, by price stability, by a solid state of the foreign payment balance and by ensuring a sustainable economic growth. This function/action is a virtue of the fiscal policy because the actions of the public authorities, besides ensuring the macroeconomic stability, also support the quality of life of the citizens.

We have thus shown and analysed the functions of the tax in terms of their virtues. Each of the three functions displays elements and traits characteristic to the virtue: provision and supply of public goods and services for all the members of the society; the philanthropic character given by the distribution and redistribution of incomes among the members of the society; concern for a better standard of living for the citizens. Thus, these evaluations of the three function of the tax show that the very fiscal policy, in its whole, is a virtue issued forth by the state, by constraint, with the purpose of ensuring the welfare of the society it represents.

Our analysis, in terms of associating the levy of taxes with elements and traits characteristic to the virtues, done so far at the level of tax functions, must expand to include the taxpayer behaviour following the constraint to pay taxes.

We will therefore have a dualism between the morality of the tax levied by the fiscal authorities and taxpayer behaviour regarding tax payment. A reputed sociologist¹, was highlighting in one of his books that the accomplishment of positive objectives for the society, compatible with virtues, is sometimes conditioned by the use of morally-doubtful instruments, which may arise adverse side effects which, within the context of our paper, can be associated to vices.

Taxpayer constraint to pay taxes generates both reactions of voluntary compliance, and reactions of voluntary non-compliance. Within the national and international fiscal practice, the efficacy of a fiscal system is not measured in terms of amount of the revenues from taxes and dues to the consolidated budget, but by the rate of accepting this constraint, of voluntary compliance to pay taxes and dues.

We will now analyse taxpayer perception of the taxes and dues levied by the sovereign state and their evaluations of the moral character of the tax, therefore associated to a fiscal virtue.

¹ Max Weber, in *Politics, vocation and profession*.

Most taxpayers display a behaviour of tax compliance, of voluntary payment of taxes, which is regarded as a civic responsibility² of each citizen, of contributing financially to the development of the society and to a higher level of civilisation, during their active period; thus they have both the quality of contributor, supporting the supply of public goods and services, and of beneficiary, both before being able to work, during the active years and after losing the capacity to work.

The fiscal morality outlined at taxpayer level represents, in our opinion, that side of taxpayer behaviour which aims the philanthropic character, particularly, and the society, generally. Hence, we consider that the fiscal morality displayed by the taxpayers can be influenced (preserved, altered, consolidated) by several institutional factors, such as the level of fiscal pressure or the predominant nature of the property. Thus, if most taxpayers with a high level of fiscal morality perceive the increase of the taxation rate, the increase of the fiscal pressure, without feeling that this increase was to the benefit of the society, that increase of the taxation rate might be evaluated by the taxpayers as immoral. Also, the fiscal morality among the taxpayers oscillates depending on the nature of the property; thus, in the companies with predominant private property which represents an ideal for the society members, morality tends to acquire shades of contestation, being seen as an excessive constraint of the liberty, while in the companies where the private property is not predominant, being owned by the state, the taxation morality is neutral due to the flattened feeling of property for private goods and due to some difficulty of evaluating the advantages of the collective goods and of the private goods.

The analysis of the taxpayer perception of the moral character of the taxes and in terms of perceiving it as a fiscal virtue showed that most taxpayers have a behaviour which confirms/accepts that fact that taxation is a moral action, the payment of the taxes being associated to a fiscal virtue.

Vices of the fiscal policy

Our approach in this section of the paper will connect several elements and consequences of the fiscality and of the fiscal behaviour of the taxpayers, with the concept of fiscal immorality, as vector of vices. The concept of fiscal immorality, in our opinion, must be approached from two perspectives, i.e. at the level of the regulatory framework for taxation and at the level of taxpayer fiscal non-compliance behaviour.

²Meaning that the people are not motivated only by a better welfare for themselves, but also by feelings of responsibility and solidarity towards the state and nation.

Starting from the traits of the vice, as shown in the introduction, we will try to identify the negative elements and consequences of the fiscal policy that impact on the taxpayers and on the society.

It is a known fact, unanimously accepted, that fiscal legislation stability is an important element that ensures and contributes to taxpayer education and to a stable economic environment. The fiscal legislation suggests the necessity of simplicity and stability of the Fiscal Code and of the Code for Fiscal Procedures, in agreement with the basic principles of taxation (certitude, efficiency, etc.), which highlight the fact that the fiscal regulations must be applicable on the long-term so as not to disturb the behaviour and activity of the taxpayers, while their language must be clear, non-redundant, easy to understand, in agreement with Montesquieu's³ recommendations *"the laws must not be subtle; they are made for people with average understanding; they are not the expression of the art of logic, rather of a simple judgement of a family father"*.

The practice reality, however, contradicts the theoretical recommendations, at least in Romania, where the dynamics of the changes in the fiscal legislation is rather high, as shown that over 100 modifications have been made to the Fiscal Code over ten years (2004 – 2014) of existence, the number of words increasing three-fold and reaching 190,000; there are 100 new articles, and just 25 of the initial 298 articles remained unchanged.

Regarding the language of the fiscal norms, one can detect apparent or real contradictions between particular fiscal legislative norms, which generate difficulties, both in terms of understanding and of observing them, and the inspection of their observance (semantics of the fiscal norms). Also, the complexity of the fiscal normative papers, which may come in several forms, i.e. in terms of methodology of calculating the taxation level, in terms of procedural and bureaucratic aspects regarding the fiscal compliance, or in terms of the general fiscal norm, by the lengthy phrases, by the high level of abstraction (syntax of the fiscal norms), add to the difficulties of readily understanding the fiscal legislation.

The abundant changes in the fiscal regulations, the complexity of the fiscal normative papers, as well as the procedural and bureaucratic aspects of the process of filling the return of income forms and of tax payment are, within the context of our approach, vices of the fiscal policy. Our arguments for classifying the mentioned aspects as vices of the fiscal policy regrade the fact that these impediments of the fiscal legislation are in conflict with the desire of most taxpayers to be

³Montesquieu, (1964, 1970). „On the spirit of laws”, vols. 1 and 2, Scientific Press

respected, both as members of the society in which they live, and as contributors to the development and progress of the society; they can also be used by a minority of taxpayers as opportunities to decrease and/or avoid their fiscal duties.

At the taxpayer level, the materialization of fiscal vices is generated by the reluctance to pay taxes, displayed by the behaviour of fiscal non-compliance. Failing to pay taxes is the most complex conceptualization of the vicious behaviour of fiscal non-compliance, irrespective whether it is intended or not.

The nonpayment behaviour, or the fiscal fraud, are deliberate acts of non complying with the fiscal duties, which thus decrease the due taxes compared to their actual obligations. The vicious effects of this fiscal phenomenon impact directly on the level of collecting the public financial resources; they create distortions within the market mechanisms; they can fuel the social/contributive inequity between the honest taxpayers and the dodging ones and they dilute the effects of the fiscal education.

The combination of the vicious fiscal elements displayed at the level of the authorities and at taxpayer level, gives birth to a broad phenomenon, with deeply immoral features, with the nature of a vice, i.e. corruption. It appears, as mentioned before, due to the vicious dualism between the two sides and it represents the manner of asking, offering, giving or accepting, directly or indirectly, an illicit fee or another undue advantage, or the promise of getting one, which affects the normal exercise of a fiscal norm or of taxpayer behaviour.

The literature provides many classification criteria for corruption, the most important ones being the active or passive character of participating in the accomplishment of corruption acts and the size of the value. Both classifications are found in our approach, because the promise and offer mix with the demand or receipt, while the big corruption is associated to the major decision-making factors that play an important role in the adoption of fiscal, financial and administrative measures, being specific to the central public administration and tightly related to the money laundering phenomenon, favouring fiscal evasion, the poor management of the public funds, the deficient collection of taxes and dues, etc.

Conclusions

The purpose of the paper was to analyse and evaluate the manifestation of virtues and vices related to the fiscal policy and in the fiscal behaviour of the taxpayer. The results led us to the following conclusions:

The fiscal policy, through its functions/objectives, is a cumulation of moral acts which aim the quality of life of the citizens and of the society as a whole, acts which can be associated to the so-called virtues of fiscal policy;

Most taxpayers accept the taxes and dues, on grounds of morality and civic responsibility, which relates to the predominant individual virtues about fiscality, perpetuated within the society;

Deficient aspects exist, unavoidably, both in terms of applying the fiscal policy, the fiscal norms, and in terms of the fiscal behaviour of the taxpayers, manifested as tax evasion and fiscal fraud;

The dualism of these vicious aspects manifesting both at the level of designing and implementing the fiscal policy, and at the level of the fiscal behaviour of the taxpayers, condense within a noxious phenomenon – corruption – which affects the fiscal policy and tends to alter the fiscal behaviour of voluntary compliance displayed by most taxpayers.

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