

Social implication and functions of tax in market economy conditionsVladimir Vladimirovich Glukhov¹, Yuri Vladimirovich Rozhkov²¹Far Eastern Federal University, Sukhanova str., 8, Vladivostok, Russia²Khabarovsk State Academy of Economics and Law

Abstract. Despite long-term theoretical generalization of various aspects of taxation, there's still no unified consistent conception that could unambiguously describe the social role and significance of tax as an instrument of public power bodies for levelling income differentiation among population strata, different in their welfare standards. Primacy of fiscal function of taxes distorts the hierarchy of tax functions, their sequence and co-subordination, and prevails over their social implication in the life of modern society.

[Glukhov V.V., Rozhkov Y.V. **Social implication and functions of tax in market economy conditions.** *Life Sci J* 2014;11(11s):325-328] (ISSN:1097-8135). <http://www.lifesciencesite.com>. 74

Keywords: state, social essence and functions of taxes, taxpayers, social contradictions

All modern welfare states face a set of very difficult challenges as they adapt to the demographic, economic and fiscal pressures of the early 21st century. These include: a) fiscal pressures of an aging "core" population; b) political challenges of maintaining public support for adequate social welfare and education in the context of growing ethnic diversity; c) growing public frustration with and even distrust of bureaucratic state institutions and political authority; d) intense pressures to reduce (or at least not increase) taxes for politically powerful constituencies; and e) the continuing pressures to move from manufacturing-based economies towards service-based economies.

These competing pressures deeply constrain the political choices available to policy makers in all advanced democratic nations [1].

On every stage of its development humanity strives for improving mechanisms, securing its existence. In the first place it concerns those institutions that affect functioning of the most important socio-economic aspects of human life and activities.

Public power bodies, performing on behalf of the state, provide their population with certain utilities, applying to most unprofitable but important sides of daily living activities of society, taxes being the funding source of them.

The issue of degree, at which taxes could be both the instrument of public power in resolution of social contradictions and efficiency of tax spending, keeps on riveting attention of scholars of different epochs, countries, scientific schools and conceptions not only in the field of economics, but other sciences, the works of whom were at the heart of fiscal and tax policies and determined development of theoretical and practical aspects of taxation.

However, despite long-term theoretical generalization of various aspects of taxation, there's

still no unified consistent conception that could unambiguously describe the social role and significance of tax as a form of solving social contradictions.

Realisation of social implication of taxes grew simultaneously with development of theoretical comprehension of their role and significance in the life of society. With a view to prevent revolutionary disturbances, society is self-interested to resolve any arising social contradictions and seek for a compromise between interests of population strata, differing in their welfare standards.

Today majority of contemporary states are in the position of a multiple-valued choice how the existing system of taxation can contribute to the balance of interests of public power bodies and concerns of society.

This problem can be considered from several standpoints.

Firstly, the interests of the federal center should compromise with the concerns of territories that are subordinate to it, with respect to distribution of the tax burden and proportion of funding to socially significant national and regional programs.

Secondly, economic interests of the state should correspond to those of taxpayers (legal entities and individuals).

Thirdly, profits of high income groups of population should be in balance with those of low income strata by means of taxes as a form of solving social contradictions.

In developed economies, as governments have expanded, taxes have increasingly been used as a tool of economic and social policy. The rich are taxed more than the poor for the sake of a vision of social justice: from each according his ability. Depending on the jurisdiction, some good cause or another is favoured: house ownership, marriage, children, charitable contributions, savings. For

companies, an almost endless series of exemptions, deductions and definitions are supposed to encourage investment, employment or some other desirable end [2].

Processes of globalization and virtuality of economic relations, openness of borders for money flows led to appearance of a new type of contradictions in national economies, those, connected with new approaches to a bond between the state and its taxpayers, who form the material basis of their government.

Rise of new contradictions as well as search for possible ways of their settlement were caused by the necessity for the state to fund social spending and the need to find sources of revenue by means of redistribution of resources, accumulated by the tax system. In this case, tax assumes an objectively conditioned form of solving social contradictions, the study of which is characterized by pluralism of various theoretical conceptions and diversity of author's points of view, each one with its own specifics.

The essence of compulsory payments is revealed in properties, functions, the role, they perform, and the results that can be achieved thanks to their operation.

With respect to taxes, the opinion of scientists on the quantity of their functions is rather manifold, varying from one function – fiscal, two functions – fiscal and regulatory, three functions – fiscal, regulatory and controlling to more ones (some authors distinguish budget-making, budgetary, burdensome, political and economic, stimulatory, economic and other functions). At the same time upon analysis and study of all presented tax functions it should be noted that they are divided into elements rather relatively, and some of them have no scientific or theoretical justification to be referred to as objective functions.

Like money or finance, taxes do not distribute anything by themselves, neither control or secure. Every function presupposes a taxpayer (a legal entity or an individual) who has an object of taxation at his disposal and carries out appropriate actions, guided by his/her own concerns and preferences [3; 4].

Consequently, if the object of taxation is not identified, it's impossible to organize the process of tax collection.

For effective implementation of the social function of taxes in practice, it's required to determine the quantity of functions, prescribed to them, the sequence of their realization for the benefit of not only the state, but a personified taxpayer as well. The hierarchy and ranking of tax functions are connected with the realization of the fiscal function,

the priority of which is logical and undisputable, as in case of failure to carry out this function, the performance of the other functions of taxation seems next to impossible.

Predestination of the fiscal function of taxes is to create the material basis for the operation of public power bodies through centralized accumulation of obligatory payments in the budgets of different levels, which enables the state to implement social programs and projects.

In this case taxation functions as a social practice of the state, aimed at regulating the processes of distributing the results of economic activity of legal entities and individuals. But it is the very primacy and fiscal directivity of the tax function distorts the hierarchy of tax functions, their sequence and co-subordination, and prevails over their social implication, and hinders their application as an instrument of regulating social and economic contradictions in modern society. Realization of the fiscal function of taxes in the process of accumulating obligatory payments should be revealed with the help of their social function that facilitates better understanding of the goals and tasks that public power bodies face, or the hierarchy of interests that the state manifests.

Leroy M. stated that historically, the tax State appeared in Europe with a financial function, but it became and remained interventionist. The social function includes the redistribution of incomes by the taxation because it modifies the social stratification, but extends to the interventions for or against social groups, behaviours and values. In spite of neoliberal tax cut policies, the tax social function remains significant [5].

Nowadays one of the main objectives of the state in the field of taxation is to find optimal balance of economic efficiency and social justice, economic essence of the tax being the foundation for such a ratio.

Economic efficiency in its turn is in strong correlation with the fiscal function of the tax, whereas the social orientation of economy finds its reflection in the social function of taxes [6].

However, performing their fiscal function, taxes do not virtually reveal their social essence, having lost their true social significance. In fact the social function has been replaced by the distributive one, realized through partial redistribution of obligatory payments, accumulated from all taxpayers.

In the opinion of Yurzinova I., the content of the distributive (or social) function of taxes hasn't experienced any meaningful changes since the time, when the economists distinguished it as a specific function of taxes. With enhanced social orientation of

government regulation of economy, the role of taxes has been steadily raising, especially from the point of view of social and redistributive aspects [7].

Hence, taxes by performing their basic fiscal function, which provides the state with money funds for its stable development and functioning of all social institutions, should be treated as a form and method of solving the existing social contradictions.

The state as a unifying whole redistributes the collected taxes between members of society, directs part of them to various social programs, designed to stabilize the status of insecure (uncompetitive) categories of population, to achieve homogeneity of the polarized Russian society.

But implementation of social programs is not the function of taxes, it's the function of the state who manages money funds accumulated through tax and fiscal policies. Thereby taxes realize only fiscal function, connected with accumulation of obligatory payments, dominating over all other functions that are in no direct correlation with implemented social programs and, consequently, do not fulfill their social predestination.

As a result of this it should be taken in consideration what are the objectives and goals put by public power bodies, when the latter determine the level of tax revenues into the budgetary system and view redistribution of money resources as a basis for carrying out tax policy.

As a rule, a wide list of social programs is drawn up in the states with a high level of taxation, which is the source of their funding. With all that going on, the degree of government intervention into economic processes plays a big role in implementation of socially-oriented taxation. For example, in the countries of Northern Europe or Switzerland, that are characterized by a strong social orientation of government regulation, the official interpretation of the social function of the tax implies that taxes are a fee for social stability, paid by people with high income for the benefit of low income strata [7].

Globalization and internationalization of economic relations, cross-border movement of labour and capital markets exert a great influence on the formation of national economies of different states and realization of fiscal and tax policies in them, as well as funding social programs.

Sven Steinmo stated that many have argued that the increased international mobility of both capital and labor witnessed in recent years will force advanced capitalist democracies to cut taxes and, thus, ultimately roll back their welfare states [8].

However, there's no use pinning hopes that it's the social essence of taxes that could be a

panacea to achieve homogeneity of the polarized modern society.

The thesis about necessity of support for uncompetitive population categories on the part of the state is beyond any doubt. Nevertheless, the use of taxes as a form of solution to social contradictions doesn't necessarily comply with efficiency of the obtained results.

It's obligatory to revise the approach to providing population with all kinds of public social transfers that have a negative side besides their obvious social orientation. It should be admitted that there are certain categories of people who have neither intention, nor desire to display labour activity or adapt to market economy conditions.

To some extent, the social function of taxes leads to growth of social parasitic attitude or smugness among recipients of various benefits and public transfers, their constant expectation of material support from outside, exploitation of fruit of somebody else's labour, interest in prolonged government benefits and reluctance (demotivation) to find jobs in different industries of economy. Some groups of citizens can abuse their right for monetary social benefits and intentionally quit their search for a job.

Besides, there are possible negative ways of how to optimize receiving of government transfers and make use of all forms of social support, depending on the family status of the recipients, that is, to increase the number of welfare transferees. It causes mock divorces, separate residence of the family members and the like.

Independent life support is a positive form of adaptation, implying self-realization of an individual, involvement in social production, creation of material and spiritual values. Exploitation of *somebody else's* resources, even if it presupposes certain adaptation (expressed in rise in living standards or satisfaction of an individual with his/her environment), makes this adjustment defective or negative, destructive for one's personality or society as a whole [9].

Similar processes, connected with economic inequality among different categories of population, are typical not only for the former USSR states, but for other countries as well.

These aspects found their reflection in scientific works of many researchers who considered national and other peculiarities and studied not only motifs that induced taxpayers to settle obligatory payments or evade them, but investigated the social essence of taxation and the role of government in regulation of social and economic contradictions [1; 10; 11; 12; 13; 14].

Not with standing relatively complete previous study of theoretical aspects of taxation, it's essential to keep further study of the social essence of taxes due to the following circumstances:

- there's still no accurate conception that would link fiscal nature of government policy to social and economic significance and role of taxes in development of society;

- the issues of impact of taxation on taxpayers' behavior (they are basically individuals) are not sufficiently covered, as well as the ways how to involve people of the country into forming sources of revenue for the public budget;

- there's still no answer to the questions of how taxes and provided benefits are connected in the process of distribution, and the degree of government intervention on regulation of economic relations has not been determined yet.

The above stated allows to make a conclusion that in modern society taxes should perform as an instrument of public power bodies, targeted at leveling social contradictions between high income and low income categories of population.

Nowadays it's urgent to rethink the content of the social essence and functions of taxes, connected with building government policy aimed at turning taxpayers from impersonal object of taxation into allies of public power bodies, concerned with successful implementation of tax reform, increase in the welfare of modern society and solution to the existing social and economic contradictions.

Corresponding Author:

Dr. Glukhov Vladimir Vladimirovich
Far Eastern Federal University
Sukhanova str., 8, Vladivostok, Russia
Khabarovsk State Academy of Economics and Law

References

1. Steinmo, S. 2012. Willing to Pay? Testing Institutional Theory with Experiments. Retrieved from http://www.svensteinmo.com/articles/Steinmo_2012_ERC_grant_statement.pdf
2. Edward, H. 2013. Taxes and human nature. January 30. Retrieved from <http://blogs.reuters.com/edward-hadas/2013/01/30/taxes-and-human-nature>
3. Glukhov, V. V. and E.V. Glukhov. 2013. Mandatory Payments as an Instrument of Public Fiscal Policy. *Middle-East Journal of Scientific Research*, 14 (7): 952-956.
4. Glukhov E.V., 2013. Tax, as a Form of Resolving Social Contradictions. *World Applied Sciences Journal*. 27 (5): 585-589.
5. Leroy, M. 2008. Tax Sociology. Sociopolitical Issues for a Dialogue with Economists. *Sociologos*. Vol. 3. Retrieved from <http://sociologos.revues.org/2073>
6. Kalinina, O.V. 2011. Social Orientation of the Russian Tax System. *Finance and Credit*, 3 (435): 43-51.
7. Yurzinova, I. L. 2007. Transformation of the Role and Place of Tax Relations in Modern Economic System. *Finance and Credit*, 39 (279): 43-51.
8. Steinmo, S. 2002. Globalization and Taxation: Challenges to the Swedish Welfare State. *Comparative Political Studies*, 35 (7), September, 839-862. Retrieved from http://www.svensteinmo.com/articles/Steinmo_2002_globalization_and_taxation.pdf
9. Balabanova, K.S. 1999. Social and Economic Dependence and Social Parasitism as Forms of Adaptation to Socio-economic Conditions. Pp. 16-32. Retrieved from <http://ecsocman.hse.ru/data/690/692/1219/001.BALABANOVA.pdf>
10. Alm, J., McClelland, G. H., Schulze, W. D., 1992. Why do people pay taxes? *Journal of Public Economics*, 48: 21-38.
11. Cowell, F. A. and J. P. F. Gordon, 1988. Unwillingness to Pay: Tax Evasion and Public Good Provision. *Journal of Public Economics*, 36: 305-321.
12. Huber, E. and J.D. Stephens. 1998. Internationalization and the Social Democratic Welfare Model: Crises and Future Prospects. *Comparative Political Studies*, 33 (3): 353-397.
13. Timmons, J. F. 2005. Left, Right and Center: Partisanship, Taxes and the Welfare State. September 1-4. Retrieved from http://allman.rhon.itam.mx/~jtimmons/Papers/J%5B1%5D_Timmons_Taxes__Partisanship_APSA_2005.pdf.
14. Timmons J.F. 2005. The Fiscal Contract, States, Taxes, and Public Services. *World Politics*. Vol. 57 (4): 530-567.

7/4/2014