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Building up a Social State for the 21st Century and Wealth Redistribution

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Abstract: *Since they are talking more and more about concepts such as "social state", "social polarization" or "redistribution of wealth" the present paper intends to stir the readers' attention presenting some personal views on the book written by Thomas Piketty, "The Capital in the XXI century" - the book " that can change the way we perceive society and we think the economy ", as said Paul Krugman, winner of the" Nobel Prize "for Economics, in 2008.*
Keywords: *social state, social polarization, capital, wealth redistribution*

Introduction

Thomas Piketty is the scientific director of the School of Higher Studies in Social Sciences and professor at the School of Economics in Paris, and his book, mentioned above, published in Paris in 2003, in Bucharest, in translation, in 2007, at Group Media Litera- is a treatise on planetary economy, a result of research work for 15 years (1988-2003) and focused mainly historical dynamics of income and assets.

In our opinion, this book places him alongside Professor Nouriel Roubini, author of the book "Economic Crisis", published in Romanian in 2010 as being among the most illustrious economic analysts at the beginning of the XXI century.

1. The Social State in the 21st Century

To measure the changing role of public power in economic and social life, we must begin with the analysis of the evolution of taxes as a percentage in the national income of a country, during which we want to parse.

Until the First World War, the state was little involved in economic and social life, when taxes accounted for less than 10% of national income.

After WW II, the rich countries begin to allocate a share of national income considerably larger (3-5 times more) and public funding for computing activities: education, health, public order, justice, army, foreign affairs, general administration, roads and basic infrastructure.

All this has increased the state's role in economic and social life for the development of society in general, but also increased public spending due to rising social needs.

The planetary crisis of 2008 appears as the first crisis of the globalized century patrimonial capitalism of the 21st century. It challenged the issue of wealth distribution and the structure of economic inequality, began century in the 18th century, a problem that has become more acute in the new global economy.

There are quite common questions such as:
a) Which are the institutions and policies that could enable fair and effective regulation of globalized capitalism heritage of the 21st century?
b) Is there a global and progressive tax on capital?

Capital tax would promote the general interest over private interests, while preserving the economic openness and competition forces, says the author.

We believe that this solution would only benefit developed countries and it has not even emerged at EU level, where there is a strong tax competition and where the polarization between rich and poor is widening more and more.

The issue of "return of the state" in economic and social life arises more acutely, using Keynesian theory in modern forms, when new tools should be invented in order to enable "the resumption of control of a financial capitalism that crazy" and at the same time, renew and re-modernized deeply and permanently tax and expenditure systems that are the essence of modern social state and whose complexity makes them difficult to understand and jeopardize the effectiveness of their social and economic.

In terms of its share of fiscal and budgetary, public power has never played an economic role as important as in the last decades. Compulsory levy represents today almost half of the national income in most countries in Europe and they allow public power to assume social missions increasingly important in every country.

It is, on the one hand, of public expenditures on education and health (10% -15% in developed countries) and, on the other hand, of replacement incomes and transfer (15% -20% meaning the retirement age, unemployment benefits), but also various monetary transfers (family allowances, welfare etc.).

In poor and emerging countries (like Romania) these compulsory levies do not provide the necessary for funding by public spending, either because there are insufficient or a there is a bad collection to the budget, and fiscal policies are inconsistent and chaotic.

"It is difficult to develop an effective welfare state with extremely low tax revenues and uncertain" - says the author.

Market economy encountered in the Nordic countries but also in Western Europe, especially in Germany, is characterized by the fact that the state is involved and is responsible not only in promoting monetary and fiscal policy appropriate to stimulate economic growth, but also in achieving an efficient infrastructure. Particular attention is paid to environmental protection, an adequate development of education, health, safeguard jobs and the practice of some substantial government programs of social protection of population, and fight against poverty in general.

The social economy, also called "solidarity economy" or "the third sector" grew out of the need to find new solutions, innovative for the social issues, economic or environmental communities, but also to meet the needs of the community members who ignored or insufficiently covered the public or private sector. It includes various forms of organizational or legal entities, such as cooperatives, societies and mutual associations, foundations etc. - entities comparable from one country to another, and having the same characteristics, even if not legally regulated in all the member States.

The main aim of the social economy compared with the market economy, is not for profit, but to improve living conditions and provide new opportunities for disadvantaged or vulnerable categories.

2. Modern Redistribution of the National Income – a Policy of the Social State Meant to Stop Wealth Polarization

The opinion of Thomas Piketty is that modern redistribution of revenue is not the direct transfer of wealthy people to the poor, but to fund public services and of replacement incomes more or less equal for all, especially in education, health and pensions. Modern redistribution is built around logic of the rights of persons and the principle of equality of access to a number of goods considered fundamental. If the solution is social inequality in the redistribution of wealth to the community, there must be some mechanism by which this is achieved.

There are two ways by which man can get wealth: ***production and redistribution***. Some increase their wealth by producing goods and services and sell them to earn money. Others may increase their wealth "redistributing" what others have produced. In this way, they create additional revenue by depleting others. The purpose of redistribution is to compulsion, especially those disadvantaged and not those influential circumventing legal norms.

Wealth gaps are unbearable, especially when welfare promised by governors not appear on the horizon and the mass of the poor grows from day to day. The interest groups chase advantages and facilities. They are doing! But what we do with the great mass disadvantaged? 26 years in Romania, politicians in every election campaign show their compassion for the poor in order to get their vote.

The major innovation of the twentieth century in tax matters has been the creating and developing progressive income tax. This played a central role in reducing social inequalities in the West, but today tax competition forces (corporations) will remove it.

In communist Europe there has been experimented a fiscal model intending a union between wealth and poverty, but in fact it was actually a model for the distribution of poverty. The serious problem is that no emerging economies today has not solved the problem of redistributing wealth; the increased welfare being felt only at the level of influential people, and poverty became further increasingly.

The tax is not just a technical issue. It is primarily a political issue and even a philosophical one, because it should be understood by the payer. The idea is to reach a consensus on who, what must pay in the name of what principles, which is not simple, because there are differences from several points of view between some and others, starting with the income and then with the capital and the consumption.

Classically, there are income taxes, capital taxes (wealth taxes and consumption taxes). We'll find samples relating to these three categories, in all ages, in different proportions.

Taxes on consumption are also called "indirect" because they do not depend directly on the individual tax payer's income or capital: they are paid indirectly through the sales price when we shop.

Thomas Piketty argues that, theoretically, we can imagine a direct tax on consumption, which depends on the amount consumed by each. In Western countries, where everything is computerized, this should be possible, but in Romania we cannot think of anything so.

We should note the fourth category of levies, that of social taxes (mandatory contributions), as a particular form of levy only on labour income (wages and income from non-paid activities) and it is allocated to social insurance funds, especially for the financing the replacement incomes (age-limit pensions and unemployment benefits). We add here contributions to health funds, retained in a brutal and immoral several times for the same person and especially on pensions.

The most disputes are on the issue of income taxes and respectively, on capital (the latter being always "easier" taxed).

In the case of the proportional tax, its rate is the same for all. A tax is progressive when its rate is higher in the case of the richest.

Increasing tax competition in the EU in recent years makes impossible to achieve a minimum of coordination on tax matters. Intervention groups of economic pressure and political reducing taxes on corporate profits, as well as exemption from taxation on interest and dividends and other income financial, where multinational corporations have made the tax levy at European level are today regressive at the top of the hierarchy revenues in most countries, while labour income is taxed excessively. This social polarization deepens further.

3. Tax Reform in Romania in the Period 2014-2020

The new tax code adopted by Law no. 227/2015, tried to do a little light in the Romanian "fiscal chaos", but it is far from what the real over-taxed economy would intend and which, precisely at the point where they produce added value.

Tax reform should come up with concrete and effective solutions for accelerating economic development and capitalization of Romanian enterprises, which hardly can be competitive in a market dominated by foreign monopolies.

Tax reform must be combined with action concentrated against major debtors and the fight against institutionalized corruption.

The unique tax produces advantages to those possessing large fortunes, who enjoy (according to the law) of a non-taxation of the most important part of the capital income.

The simple Romanian people, the so-called "middle-class" have little incentive to invest in the capital market and the extra-incomes are consumed on imported goods, which do not help the economy or the country's foreign currency reserve.

It must be supported the income globalization method from labour and from capital, a system still practiced in the West.

To reduce tax evasion, there should be introduced the tax control of assets. In this way, every citizen must submit the "Declaration of wealth", even if they are not public official and even though they are simple employees. Thus, the state can control the legitimacy of acquiring wealth declared income based and of taxes paid, compared to assets held. Undeclared assets and unreported non-taxed income be subject to be seized!

When the population will justify both revenue and expenditure there will be unoccupied people who do not work and do not pay taxes but spend money ostensibly and possess a fortune.

We do not need prisons, but money for the budget! We do not educate fraudsters in jails, but at work! Let them produce surplus, and if they do not abide to the law, let us confiscate their wealth! It is the only way to install social order.

Progressive taxation should not be judged in a communist "way", i.e. the abolition of the rich. Through the system of deductible expenses, the state can stimulate taxpayers (individuals and businesses) not to spend money on unnecessary luxury goods and non-essential utilities, but to invest in the capital market and education (scholarships), support for the elders, training of employees or insurances.

Thus, income redistribution through taxation is not imposed by the state but by personal decisions of holders of income and capital.

They must not be suspected of fortune, if they are honourable law-abiding citizens paying their debts to the state. Financial contractors should not enter into managerial policy of costs of the private company in order to control it but only under specifically authorized circumstances imposed by the law. Not owned by the state, private companies risk bankruptcy if they do not control costs well and sell below the cost of the production.

Because the part concerning wages within the framework of the income of the EU Member States is the lowest, it exits numerous concerns at the highest European level to find the best ways of solving the problem of unequal distribution of incomes (resulting from labour and capital).

Jean-Claude Juncker, the European Commission President is stating that wages may increase relatively to productivity, without threatening European economies.

More precisely, politicians in Brussels support the idea that part of the profit of the companies should be redistributed to employees to ensure social peace and create loyalty of the workforce. At first glance, this seems an idea of Marxist origin. Leaving aside the ideological issue, redistribution of wealth is primarily an economic issue, namely: finding a balance between stimulating companies to share profits with employees and avoid undesired salary increases which, in turn, attract new taxes in the budget, higher prices and hence inflation.

Even the IMF experts show that inequality of incomes from labour and capital affects economic growth and taxation of the rich to help the poor is beneficial.

Conclusions

Economic growth do not bring added value for everybody, but it maintains differences and finally, social polarisation.

At a meeting in Rome where the UNO General Secretary, Ban Ki-moon, was present, Pope Francis urged governments to redistribute wealth to the poor, to reduce "exclusion economy" taking place today. It seems that IMF experts are full of reverence and bowed to the Pope of Rome! As the representative of Latin America, Pope frequently attacked the injustice of capitalism and the global economic system that excludes a large proportion of the world population.

We want to see after these "free elections" the way in which the Romanian rulers, who do not obey the pope, but listen to the people, will renegotiate with the IMF experts a new Tax Code to let the Romanian live free in their own land, along with foreign investors willing to pay fair their debts to the Romanian state!

Supplementary recommended readings

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