Taxes as a Price for the Services that the State Renders

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Taxation is often believed to be one of the most controversial and highly disputed matters in both developing and developed states. The most logical reason for the severeness of these debates relates to the allocation of services, which are primarily generated by prompt taxation from the side of the state's citizens. While some countries are associated with higher scales of tax pressure, others aim to ease business entities and ordinary citizens from paying significant portions of their income to the state's budget. With regard to the most widely spread notion of taxation, one may recall the opinion that taxes refer to the price that is paid to the state on behalf of generated services and commodities. Since contemporary reality is full of tense discussions over tax pressure, it would be reasonable to review three distinctive subject matters to determine the reasons for taxes to be treated seriously and adequately, including low taxation among developing states, the Nordic model of taxation, and the measurable outcomes of high taxes.

Low Taxation of Developing Countries

One of the central assumptions concerning developing states relates to the low-income socioeconomic structure of their macroeconomic figures, which are believed to backpedal in comparison with more developed states. However, the context of developing countries best represents how taxes may be used as a social contract between the central government and its citizens. Developing states commonly share the characteristic of resisting a redistributive motive in the form of transferring resources, which best depicts taxes. It also emphasizes the unwillingness to allocate financial resources in the direction of infrastructure-related sectors of the economy (Besley & Persson, 2014). Presumably, low-income states usually have a colossal informal sector, which operates around dozens of small-scale entities.

Since the informal sector might not become taxed due to the absence of formal record-keeping, the formal sector performs opposite taxation principles. Consequently, the informal sector underlines another pivotal issue among the developing states, which is foreign aid as a financial source of development (Besley & Persson, 2014). In other words, the absence of formal record-keeping, the reliance upon foreign aid, and insufficient taxation are the core reasons for the backpedaling of developing states, which generally impose lower taxes than the developed ones. Furthermore, these countries fail to pay their price to their governments, which in turn have nothing to do with economic development without a proper share of taxes in the structure of a state's GDP.

The Nordic Model of Taxation

In sharp contrast, the Nordic model of taxation is one of the densest, which operates in the Scandinavian region. If to compare tax revenue, Denmark, Norway, and Sweden generate twice the American revenues, which is one of the most prominent indicators of this system's pressure imposed on citizens (Kleven, 2014). However, the Nordic model of taxation has proven itself over time, eventually allowing Scandinavian states to become one of the most progressive and quickly developing states across the globe. The crucial point is that Scandinavian citizens track the ways through which taxes change their life, which may range from water supply to broader subjects like a child's kindergarten and health care.

What is even more peculiar in the Nordic model of taxation is that the rates of tax evasion are lower than anywhere across the globe. So, third-party providers in the form of employers and the financial sector report the data on taxation directly to the government (Kleven, 2014). The pieces of empirical and theoretical arguments on the Nordic model of taxation also emphasize that the direct comparison with the U.S. represents the superiority of Scandinavians in terms of public spending, which usually includes childcare, preschool, and eldercare. It should also be noted that the high taxes within Scandinavian states are associated with unpleasant perceptions, which are believed to be justified by the quantity and quality of provided services (Livingston, 2016). Even states with moderate scales of tax pressure voice substantial attractiveness, which is believed to be natural in terms of governmental attention to services rendered by high tax rates. The merger of income, corporate, dividend, capital gain, and environmental taxes serve as revenue-raising instruments, which are efficiently and measurably allocated to tackle the socioeconomic issues that exist in their respective societies.

Measurable Outcomes of High Taxes

With regard to the measurable outcomes of high taxes, one may underline the importance of Scandinavian states, which best serve as role models for the research on how they raise revenue. It would be rational to point out that public policies in the form of sponsored college education, paid parental leave, and universal healthcare are often associated with the merits of the Nordic model of taxation (Pomerleau, 2015). Thus, a brief recap of the ways through which the money is generated should be mentioned, coupled with argumentation concerning the necessity of purchasing public services from the side of the government. The crucial point of the entire Scandinavian taxation system is the flat method of taxation, which involves taxing most people at high rates rather than only those with high incomes.

Value-added taxes are generally believed to be unique parameters of the Nordic model, which generate enormous shares of states' GDPs. Alternatively, states that disregard value-added taxes, including the U.S., lose much of its potential revenues. One of the most sophisticated explanations pertaining to the redirection of the money generated from taxes relies on face-to-face comparisons. While the U.S. struggles with a social foundation in terms of health care and insurance, states with higher taxes, including the Scandinavian ones, set standards for the entire world (Livingston, 2016). Despite the fact that taxes are often perceived negatively, the fundamental factor to consider is that taxes serve as being the universal price for services that the state renders, meaning that low taxation rates or tax avoidances are adverse for citizens themselves.

Final Remarks

Taxes are justifiable measures for states to generate income, which considerably enhances developed states in terms of the quantity and quality of provided public services. Developing states struggle with imposing higher rates of taxes because of low incomes—a huge share of the informal economy, and the inability for execution from the side of the government. This notion also correlates with the marginal state of affairs of public services of developing nations. The Nordic model of taxation was reviewed thoroughly, eventually underlining its usability regarding exceptional progress in terms of public services. Lastly, taxes serve as a pivotal function in forming a social contract with a state, meaning that the taxes are paid on behalf of the services delivered by governments.

References

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