

CONTRIBUTORY CAPACITY IN CONTEMPORARY TAX SYSTEMS: BETWEEN NORMATIVE IDEAL AND EMPIRICAL CONSTRAINTS

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Motto: *"Power involves a world that combines both chance and necessity, chaos and order" Alvin Toffler "Power in motion".*

ABSTRACT

The ability-to-pay principle is one of the fundamental pillars of the tax theory. The article proposes an integrated analysis — theoretical, empirical and comparative — of how this principle is applied in contemporary economies, with an emphasis on Romania and relevant comparisons with Poland and Hungary. The approach is an essayistic-analytical one, supplemented by econometric tools (regression on the Gini coefficient), to highlight the distance between the normative ideal of fiscal equity and institutional realities. The results indicate that the principle functions as a normative benchmark rather than a pure operational mechanism.

KEYWORDS: *contributory capacity; fiscal equity; inequality; Gini coefficient; progressive taxation; fiscal pressure; ability-to-pay (ability to pay); tax compliance*

J.E.L. Classifications: **K21, H24, D63, H21, D31, D63, E62, H20, H26**

1. INTRODUCTION

Beyond formulas and legal constructions, taxation remains the expression of a fundamental question: who, how much and why contributes to state financing?

The principle of contributing capacity provides a seemingly simple answer - everyone contributes according to their economic power. In reality, however, this idea crosses a tense field where equity, efficiency and the constraints of the global economy meet.

In Romania, this tension is visible: the low level of tax revenues coexists with significant inequalities, suggesting an incomplete application of the principle.

This principle is all the more important to highlight, analyze and apply as sociologists and empirical findings have revealed a surprising truth, inequity in the community leads to suffering and revolt to a greater degree than a shortage, the lacks themselves.

2. THEORETICAL FOUNDATION

In practice, states — including Romania — do not apply the principle of contributory capacity in its "pure" form, but in a permanent balance between equity and economic reality. That is why we see seemingly paradoxical systems: countries with high inequality and low taxes or, conversely, states with high taxes but socially accepted.

In Central and Eastern Europe (including Romania, Poland and Hungary), the dominant model is not an "ideal" one, but a pragmatic one: moderate taxes, imperfect collection and a dose of tax competition. Here, the contributing capacity does not disappear — but is "filtered" by economic constraints.

Contributory capacity (ability-to-pay) implies that the tax burden must be calibrated according to the taxpayer's resources. Traditionally, this is expressed by:

- income (flow)
- wealth (stock – stock)
- consumption (use)

This view is associated with the idea of vertical equity (the rich pay more) and horizontal equity (the similar pay the same).

In relative opposition is the benefit principle, which suggests that taxes should be correlated with public services received (Stiglitz, 1987).

In our view, in practice, no tax system applies exclusively one of these principles — they coexist in an unstable equilibrium.

3. ROMANIA: BETWEEN CAPACITY AND COLLECTION

In our country, the fiscal picture is marked by a paradox. Tax revenues are 28–29% of GDP while the EU average: ~40%.

The single income tax rate is 10% with very high social contributions (total labor burden: ~40–45%).

At the micro level, households allocate more than 20% of their income to taxes, while the coefficient indicating the inequality of wealth distribution among the population (the Gini coefficient) is much higher than in the European Union and is something over 0.34% (high inequality).

In other words, economic capacity exists but is not fully translated into effective fiscal capacity.

This situation, experts say, suggests not so much a low level of taxation as:

- a narrow tax base
- collection difficulties (tax compliance)
- fragmented preferential structures

4. A REGIONAL LOOK: FISCAL PATTERNS IN CENTRAL AND EASTERN EUROPE

The comparison with Poland and Hungary highlights a common but not identical logic.

Poland:

- progressive system (12% / 32%)
- more efficient collection
- more visible redistribution

Hungary

- single share (15%)
- Very high VAT (~27%)
- emphasis on consumption taxation

Romania

- single share (10%)
- reduced collection
- limited redistribution

Overall, the region prefers moderate income taxes and compensates through indirect taxes, which dilutes the pure application of contributing capacity.

5. ON "EXTREME" TAXATION: BETWEEN MYTH AND HISTORICAL CONTEXT

References to 90% quotas appear so frequently in public debate that they have become almost legendary. There were such quotas in reality, but in earlier eras:

- United States (1950s): marginal shares >90%
- United Kingdom (1970s): up to 98%

They targeted only very high incomes (marginal income) and operated in economies: less globalized, with reduced capital mobility

Today, even in countries like Denmark or Sweden, famous for "Swedish socialism" the maximum levels are around 50–57%.

The conclusion is clear: extreme progressiveness is no longer structurally sustainable.

6. TAX YIELD AND COVERAGE OF PUBLIC EXPENDITURES IN ROMANIA

This perspective offers perhaps the most concrete picture of the contributory capacity: not how much is taxed, but how much the tax system actually produces.

The structure of fiscal revenues in Romania is:

- social contributions: ~11–12% of GDP
- VAT: ~6–7% of GDP
- income tax: ~2–3% of GDP
- profit tax: ~2% of GDP

There is a very strong reliance on taxing labor and consumption, not high incomes or capital.

Covering public expenses represents 35–37% of GDP, while tax revenues are approx. 28–29% of GDP. The result is a difference, a budget deficit of more than 6–7% of GDP. In other words, the tax system does not cover the operation of the state!

This situation reveals three essential aspects:

- (1) The contribution capacity is under-collected. Not the lack of economic resources, but the inability to transform them into tax revenues.
- (2) The fiscal structure is unbalanced. Emphasis is placed on: labor (taxing it), consumption and less on capital and wealth. That is, in empirical perception, those who work are taxed, not the rich!
- (3) Deficit addiction. The state operates partially on loans and structural deficit.

Regional comparison:

- Poland: better coverage of expenses (~36% revenues / ~40% expenses) .
- Hungary: higher revenues (~34% GDP), but based on VAT
- Romania remains below the regional level in terms of fiscal efficiency.

7. STRUCTURAL LIMITS OF THE CONTRIBUTING CAPACITY

The application of the principle is restricted by several factors:

- imperfect measurement (informal economy, hidden income)
- fiscal optimization (tax avoidance)
- global capital mobility
- fiscal competition between states

In addition, the classic tension between equity (redistribution) vs. efficiency (economic incentives).

8. CONCLUSIONS: A NECESSARY BUT INCOMPLETE IDEAL

Contributory capacity is not a pure technical rule, but a normative ideal.

In practice:

- states cannot perfectly observe real incomes
- taxpayers react strategically
- the global economy limits fiscal autonomy

In Central and Eastern Europe, including Romania, the result is a compromise. We have enough taxation to run the state, but not enough for deep redistribution

Contributory capacity remains a fundamental landmark of fiscal theory, but in Romania it is under-applied, especially from the perspective of collection, in the region it is strategically adapted, not fully implemented, and globally it is limited by capital mobility and fiscal competition

We might conclude that, in essence, the principle functions as a normative compass, not as an automatic mechanism.

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