ESTUDIOS

SOCIAL JUSTICE AS A FACTOR OF ECONOMIC DEVELOPMENT: A STUDY IN THE REPUBLIC OF ARMENIA

LA JUSTICIA SOCIAL COMO UN FACTOR DE DESARROLLO ECONÓMICO: UN ESTUDIO EN LA REPÚBLICA DE ARMENIA

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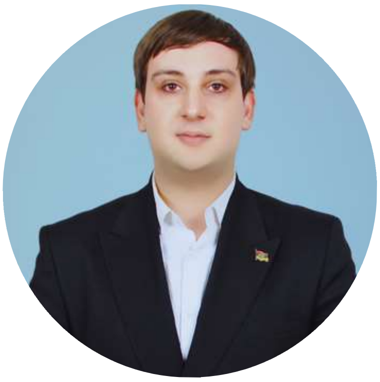

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Abstract:

In this article, the importance of social justice as a factor of economic development was discussed, studying the example of the Republic of Armenia. Social justice is one of the traditional problems of economic science. The lack of development of these problems determines the relevance of research on the chosen topic, the results of which can contribute to the formation of scientifically based social policies during the transition to a market economy. The article also discusses the advantages and disadvantages of flat and progressive tax systems and their impact from the point of view of social justice.

The main purpose of the article is to assess the current state of the Armenian economy in order to comply with the principles of social justice and to justify the need for institutional reforms in the country that correspond to the concept of social justice, as well as to overcome the existing inequalities and poverty.

Keywords:
Social justice, economic development factor, flat, progressive taxation, Republic of Armenia.

Resumen:
En este artículo se discute la importancia de la justicia social como factor de desarrollo económico, estudiando el ejemplo de la República de Armenia. La justicia social es uno de los problemas tradicionales de la ciencia económica. La falta de desarrollo de estos problemas determina la relevancia de la investigación sobre el tema elegido, cuyos resultados pueden contribuir a la formación de políticas sociales con base científica durante la transición a una economía de mercado. El artículo también analiza las ventajas y desventajas de los sistemas impositivos fijos y progresivos y su impacto desde el punto de vista de la justicia social.

El objetivo principal del artículo es evaluar el estado actual de la economía armenia para cumplir con los principios de justicia social y justificar la necesidad de reformas institucionales en el país que correspondan al concepto de justicia social, así como a superar las desigualdades y la pobreza existentes.

Palabras clave:
Justicia social, factor de desarrollo económico, tributación uniforme y progresiva, República de Armenia.

I. Introduction

Since the collapse of the USSR and the establishment of the Third Republic all the forces aspiring to state power and coming to power in Armenia indiscriminately declared the need to carry out systemic reforms. The latter apparently meant and continues to mean that the most diverse (economy, politics, social protection, the principles and structures that organize and operate the actual public life in the fields of justice, education and healthcare, etc., emerge within their limits incoming practices are essentially unacceptable and unviable. Here are such political values in this context ideas such as social justice and human fundamental rights, especially their relationship and articulation, are of special importance because are key political values and have greatly contributed to public policy discourse in Armenia formulating problems of significance. Moreover, it is the above-mentioned liberal-democratic ideology that allows for the strong articulation of these values. The idea of human (fundamental) rights in practice the need to ensure its implementation is widely circulated and domestically, internationally and globally have become a political priority after the Second World War[1].

The theoretical analysis of the transformational processes taking place in the world economy and the Republic of Armenia includes the development of new research objects for domestic economic science. Among them, the problem of social justice in the modern market economy occupies an important place. The variety of forms of ownership emerging in the conditions of the transition economy determines new ways and values in the social sphere and puts society in front of the problem of forming a system of socio-economic adaptation, taking into account domestic traditions. At the same time, the inconsistency of transformations creates additional difficulties in the transition to the market, and therefore the development of the problem of social justice in a market society acquires not only economic, but also socio-political relevance. Such an analysis is possible under the study of the entire complex of economic relations, which are the basis of social justice and regulate the economic behavior of almost all subjects of the market process. But it is precisely these aspects that have long been in the center of attention of economists, while it comes to the analysis of the most important mechanism of the qualitative transformation of the entire economic system; social market economy.

The lack of development of these problems determines the relevance of research on the chosen topic, the results of which can contribute to the formation of scientifically based social policy during the transition to the market economy. The degree of study of the problem. Social justice is one of the traditional problems of economic science. At the same time, its development in the light of the transformation of the deep relations of the Armenian society is clearly insufficient.

II. The main provisions

Social justice is a substantive issue of economic theory, because it is determined by economic relations. The degree of its practical relevance depends on the level of socio-economic differentiation of property, income and the roles of economic entities. The peculiarity of social justice as an object of economic analysis lies in its multidimensionality and the variety of forms of manifestation and implementation, which makes its «*inclusion*» in the entire spectrum of studied economic processes inevitable. It determines the possibility of an alternative and the necessity of synthesizing the methodology of economic analysis of social justice.

Social justice, concretely expressed in every sphere of society, in economic relations, has a primary role in the comprehensive development of a person and, first of all, in the process of creating conditions for his productive abilities and promoting the distribution of results (individual, corporate, social). In this sense, economic history is a contradictory overcoming of the limitations of the implementation of social justice.

The market economy as a monetary system deforms social justice in its traditional understanding by predetermining the priority of the monetary income-expenditure balance in the guidelines of the business entity. It means turning «social justice» into a «*principle of rational behavior*», although the content of the latter does not exhaust the economic space of social justice, which is a source of contradiction in the market mechanism.

The economic content of social justice reflects the multifaceted directions of the market system, including in the period of its formation in Armenia, combining private entrepreneurship with social protectionism, as a result of which the realization of social justice in the market space achieves the market-non-market realization of the entire complex of natural, intellectual and social needs of the individual.

Dialectic, in other words, social justice in the market sense is the realization of equality through inequality, while in the non-market sense, inequality is achieved through equality.

The main market mechanism for the implementation of social justice is the balanced price system, the degree of deviation from which at the micro level characterizes the extent of market injustice in terms of individual producers and/or consumers, and at the macro level; deformation of Pareto's optimal frontier.

In recent years, the issue of social justice is practically not considered in the Armenian economic literature, because there is an opinion that it is nothing more than a «relic of socialism» and that there is no place for questions about justice in the societies of market economy and liberal democracy. This assessment reflects the long-term contradiction of two economic systems, one of which fully corresponds to the ideals of social justice (socialist society), and the other (market capitalist society), due to the strict differentiation of income distribution, could not contribute to the realization of these ideals. In fact, society cannot consider itself developed and civilized if it does not try to solve the problem of social justice. And this is confirmed by the fact that throughout the history of human society, the most advanced and famous scientists have studied this problem in their works to one degree or another. In all historical eras, social justice has been considered as a measure of social equality and inequality in the living conditions of the population, its various social groups, objectively determined by the level of economic and spiritual development of the society. But in different countries and in different periods, different contents have been introduced into these concepts. When it comes to social justice, its main object is institutions: norms, rules, economic and social systems. In this sense, it is necessary to talk about the institutionalization of the principles of social justice, the rational mechanisms of transforming informal ideas about social justice into real norms and rules. JOHN RAWLS, who wrote one of the seminal modern studies of social justice, called justice «*the first virtue of social institutions*». «*Laws and institutions*», the scientist writes, «*however effective and successful they are, should be reformed or abolished if they are not fair*»[2].

Under the principles of social justice we understood as the initial guidelines that should be followed when creating the conditions and mechanisms for achieving it[3].

There are other interpretations of the concept of social justice. Thus, MICHAEL NOVAK uses the concept of social justice to emphasize the regulatory role of law in the redistribution of wealth, income, and power[4].

According to NUNE JOMARDYAN, Social justice is the mutual social responsibility and responsibilities of the state and the individual, by virtue of which the state undertakes to ensure a certain level of well-being for the dignified life of everyone, to promote the latter's participation in the economic, social, political and spiritual life of society, and the individual undertakes to be independent and socially responsible for his actions[5].

In our opinion, the principles of social justice regulate norms and mechanisms aimed, firstly, at ensuring equal rights to participate in the market (creating equal economic opportunities), and secondly, at maintaining the necessary balance in distribution, excluding excessive inequalities. In a more equitable institutional system (comparative characteristics in this case are more appropriate), each person should receive, along with others, access to education, health care, and other basic values, and business entities should count on ensuring equal competitive rights. Justice of institutions, from the point of view of compliance with its basic principle, is assessed depending on how effectively they provide equal economic conditions for everyone to achieve their goals. The second principle of social justice prescribes such (not necessarily equal) distribution of income and wealth between people, which, according to the terminology of JOHN RAWLS, ensures «*benefits for all*».

The growth in the number of poor and the high level of income differentiation in Armenia is due, to a large extent, to the weakness of redistribution mechanisms, including a flat personal income tax scale, weakly expressed elements of progressive taxation of property and land, and regressive social insurance contributions. Because of these discrepancies, the labor income of Russians is increasingly taxed, while income from property, investments, and income hidden from observation remains with their owners. The transition to a progressive tax system based on the principle of «*go where the money is*» is becoming increasingly urgent[6].

At the same time, scientists talk about the need to improve the methodology for calculating the «*average wage*» indicator used in the formation of the «*share of working poor*» indicator due to more complete coverage of subjects of statistical observation, which can lead to an increase in the indicator[7].

It is necessary to carry out reforms aimed at transitioning to progressive taxation and preventing rental income of individual market participants generated through unfair competition. These measures, carried out in combination, can bring not only a short-term effect due to an increase in budget revenues from additional tax revenues and an increase in consumer demand from the poor and middle segments of the population, but also long-term positive consequences due to an improvement in the social climate in society and an increase in the motivation of workers to work conscientiously labor.

Revision of the tax policy conducted by the state is also an effective step to achieve full social justice and contribute to the development of the economy.

In recent years, the Government of the Republic of Armenia has implemented a draft amendment to the RA Law «*On Making Amendments and Additions to the Tax Code of the Republic of Armenia*», which proposed the transition to a flat income tax system, setting a single rate of 23%, and then the income tax rate until 2023 gradually. reduce it to 20% (draft of RA Law «*On Amendments and Additions to RA Tax Code*»[8]). However, the country also has a problem of poverty, which must be solved for the free flow of social and economic processes. A high poverty rate means that the country has high unemployment, inflation, corruption, and low wages. To solve these problems, it is necessary to develop programs that will correct the difference between the number of poor and wealthy citizens. One of these programs includes the introduction of a tax-free minimum, a progressive scale, which curbs the aggravation of the financial situation of the poor part of the population.

Progressive and flat taxes are the two most common forms of taxation chosen by entrepreneurs. Each of them has its own advantages and disadvantages and it is worth getting acquainted with them in detail in order to have an idea of their influence, from the point of view of ensuring social justice by the state. First of all, let's note that the main disadvantages of the flat tax system are:

- Ability to reduce income inequality and promote social justice.
- Greater ability to fund public services and infrastructure.
- The lower tax burden for low-income earners.

The famous economist ADAM SMITH also defended the idea of progressive taxation using the opportunity-to-pay argument: «*the necessaries of life are the chief expense of the poor. It is difficult for them to obtain food, and most of their modest income is spent on purchasing it. Items of luxury and vanity are the main expense of the rich, and a magnificent house also decorates and displays in the most favorable light all the other items of luxury and vanity that they possess. Therefore, the tax on rent should, as a general rule, fall most heavily on the rich, and in this kind of unevenness perhaps nothing particularly unfair. It is not at all unfair that the rich should share in public expenditure not only in proportion to their income, but also in a somewhat larger share*»[9].

Citizens who receive more do not have the desire to pay more tax, which, according to opponents of progression in income taxation, will invariably lead to tax evasion and a return to «*gray*» salaries, to «*shadow*» business. In addition, in their opinion, other important negative phenomena will arise in the country's economy, such as lack of incentives to work, increased unemployment, and decreased investment[10].

Meanwhile, a progressive tax system raises tax rates as income levels rise, with the goal of reducing income inequality and collecting more revenue from high earners.

This tax system can redistribute wealth and fund critical government initiatives, such as health care and education, to improve the quality of life for citizens. However, it may also discourage entrepreneurship and investment, as high earners may feel constrained by higher taxes. Ultimately, the effectiveness of a progressive tax system depends on its design and implementation, as well as the social and economic context in which it operates[11].

Therefore, the advantages of the progressive tax system are:

- Ability to reduce income inequality and promote social justice.
- Greater ability to fund public services and infrastructure.
- The lower tax burden for low-income earners.
- And finally, one more argument in favor of a progressive scale of individual income tax rates. Almost all economically developed countries in the world use progression when taxing personal income. In this case, the upper limit of rates can reach very high limits. In particular, in Germany it is 47.5%, in Belgium - 53.7%, in Denmark - 55.6%, in Sweden - 56.6%, in Finland - 51.1%, in France and Austria - 50%[12].

International experience has shown the widespread use of progressive taxation scales (for example, in Germany, Austria, Luxembourg). At the same time, income tax is socially oriented, and personal income up to 8,004 euros in Germany, up to 11,000 euros in Austria and less than 11,265 euros in Luxembourg is not taxed[13].

Thus, we can state that the income tax equalization system will lead to a decrease in the disposable income of low-wage earners and an increase in the disposable income of high-wage earners. Also, from a social point of view, it will lead to the fixing of a high «*Jin coefficient*» by law, which will contribute to the deepening and aggravation of poverty. We also noted that from a social point of view, this will lead to the emergence of a class of legal enrichers, but we will not demand them to pay high taxes. Progressive taxation, in addition to directly increasing the amount of personal income tax, will become a source of replenishment of insurance contributions to the pension fund.

A progressive tax scale has more positive features than negative ones. Through this system of taxation of citizens' income, the principle of social justice is implemented and a significant share of financial resources is ensured in the budget of the country and regions.

At the same time, when establishing a progressive scale of income tax rates in Armenian tax system, it is very important to think through and economically justify tax rates in relation to the tax base. Otherwise, all the advantages of a progressive tax scale may turn into its disadvantages.

III. Conclusion

As a result of the discussion, we come to the conclusion that taking into account the expert analysis, the existing opinions, the government should abandon the application of the flat principle of income tax, because as a result of the flat tax, the government violates the rights of its citizens from the point of view of social rights and social justice. Meanwhile, if we refuse flat taxation and switch to progressive taxation, we will be able to ensure social justice for different layers of society.

Especially it is necessary to carry out reforms aimed at transitioning to progressive taxation and preventing rental income of individual market participants generated through unfair competition. These measures, carried out in combination, can bring not only a short-term effect due to an increase in budget revenues from additional tax revenues and an increase in consumer demand from the poor and middle segments of the population, but also long-term positive consequences due to an improvement in the social climate in society and an increase in the motivation of workers to work conscientiously labor.

If we solve the above problems, we will be able to ensure social justice for the society and make a great contribution to the development of the economy.

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