

Considerations Regarding the Environmental Responsibility and Taxation

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Abstract: The public policy tool of taxation may generate discouraging effects upon the economic agents – consumers or producers – but also could be used as incentives. High environmental taxation could generate crowding effect in terms of responsibility. Sometimes a very sophisticated system of environmental taxation is the basis for a highly regulated business environment and conformity but with a lack of real responsible citizenship. We are trying to see if the impact of taxation upon responsibility is real and can affect the motivation for environmental responsible citizenship. The main findings are related to the impact of regulating power of environmental taxes. Also there is evident the interest of entrepreneurs in environmentally responsible behavior and the less information about the benefits of responsible citizenship.

Keywords: environmental responsibility, taxation, responsible citizenship

JEL Classification: H23; M14; Q56

1. Introduction

It is recognized the deterrent effect of taxes on consumption and production. Tax systems worldwide base its environmental protection component on Pigou. Pigouvian principle "polluter pays" can have adverse effects on the individual level of responsibility. Basically you can create a dependence of paying for destroying the environment. The environmental damage became a normal consumption for which a certain environmental tax is paid. More over a social inequity is created by such an approach - the rich will "allow" themselves to create more environmental damage for the simple reason they can pay more (Bazina & Ballea & Touahrib, 2004, p. 3). According to a survey conducted among the SMEs in the South-East region of Romania, the main motivation for the entrepreneurs to develop activities related with environmental protection is given by the strict law limitations

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(especially fiscal regulation) and conformity actions. By far the second main incentive for a responsible citizenship in the reducing of certain cost resulted from protecting the environment. Another aspect that encourages the businessmen to be kind with the environment is the fact that a responsible attitude builds a good market image (the less importance of market image for such enterprises is given by the nature of a SME). The voluntary measures and activities are less important and placed last. This fact confirms the Friedman statement that a business sole role is to bring value and benefits only for the capital owners and excludes the other stakeholders (Friedman, 1970, p. 2).

This does not necessary means that the individual is irresponsible. The analysis of Jonas (1984) insists on the importance of intergenerational responsibility with regards to nature. As a matter of fact sustainable development at large may be considered an intergenerational optimum. Sustainable development being the human way to act for bringing the happiness of present generation without affect the future generation opportunity to seek happiness. The individual thus imposes limits upon him and thereby adopts the responsible citizenship. Taking this responsibility into account would then imply clearly distinguishing it from forms of behavior pertaining to taxation. It is hence important to distinguish the effect of taxation from that of individual responsibility over the quality of the environment. To be more precise, we suppose that taxation produces a crowding-out effect over responsibility. We could say the individual has a limited responsibility in the taxation boundaries. Several conclusions could then be drawn. Firstly, an increase in taxation could lead to environmental degradation. This indeed is not the aim of such taxation. Next, when the decision maker takes this form of behavior into account, it would help obtain a better environmental quality only in a situation where the effects of individual responsibility are not taken into account.

2. Different Approaches

We have two major limitations. One is the fact that the individual attitude (regarding the environment and the intergenerational solidarity) is mostly irresponsible and the second is the fact that taxation brings altogether a crowding-out effect (Bazina & Ballea & Touahrib, 2004, p. 4). These limitations came together with the system of motivations and incentives, many of them that may have a fiscal dimension as well. Lynes and Andrachuk (2008) structured the main motivations as financial benefits, competitive advantage, image enhancement, stakeholder pressures and desire to avoid or delay specific regulatory actions. Although the set is considered as a general pattern for every enterprise there are different ways to assess these motivations. For example the financial motivations are achievable in short and medium term according to Kiernan (2001) or Hart (1995) through eco-efficiencies. According to the results of our investigation the

SMEs we questioned are more interested in fiscal incentives and punitive measures than in reaching efficiency through responsible actions. Moreover they don't have a strict system for calculating the eco-efficiency or environmental performance of their activity limiting the responsibility approach to reduced operation cost as a result of green actions integrated in their productive processes. The environmental or the eco-efficiency is not the attribute of SMEs, so no assessment in this direction is understandable. To gain credibility in measuring the environmental performance is necessary to assess a number of economic and environmental information and transform it in eco-efficiency indicators. Integrating the economic performance indicators with the environmental performance ones provides a complex image upon the enterprise activity as a whole and permits the environmental issues to be integrated in the decision system.

Somehow opposite to Bazina et. al. (2004), Bithas (2006) consider the environmental taxation a useful tool and that its absence deprives all other members – nonpolluting members – of society of environmental welfare. Moreover not paying the environmental fiscal punitive rates is consider being thievery and consists itself a motivation to damage the environment. No application of “polluter’s pay” principle leaves the decision maker without any instrument for promoting the intergenerational optimality regarding the environment. More of it if no taxes the initial inequalities in using/damaging the environmental goods grows. So if Bazina approach leaves the environmental policy in a liberal way at the hands of voluntary responsible citizenship the other important approach of environmental issue is the internalization of externalities. The internalization is a response to stakeholder pressures (Henriques, 2010, p. 34), or by specific taxation. No matter which approach is considered remains the fact that optimum protection is reached when voluntary responsible citizenship or environmental fiscal policy provides zero environmental degradation. Following the law of thermodynamics (Georgescu-Roegen, 1971, p. 87), zero damage corresponds to zero level socioeconomic activities, so is an illusion.

There is another way of thinking as follows: “Laws can also force the polluter to take notice of these external costs by prescribing limits to what can be disgorged or emitted, but economists tend to be ideologically opposed to the use of law for this purpose, preferring the market to perform this function” (Beder, 1996, p. 5) and elsewhere “benefits from using well designed pricing mechanisms can be obtained with a sensible, well designed regulatory standard” (Schelling, 1983, p. 121). The approach also has its flaws because different regulatory systems are designed in specific market conditions and using different standards of “how much is ok to damage” that differs in conditions of time and space.

Bithas (2006) doesn't exclude the individual responsibility but see its limitations and affirm the necessity of complete it with a rigorous taxation system to take the initiative where the rational environmental behavior ends.

3. Assessing the Romanian SMEs perception of taxation

Based on two questions from our study on Romanian SMEs we assessed the entrepreneurs' perception on environmental responsibility and the perceived influences of taxation on it.

The questionnaire from where we extracted the responses was build aiming to evaluate both the present situation in the field of social and environmental responsibility among the SMEs and also to identify the specificity of SME sector in Romania for environmental responsibility activities and actions taken. We had some models and we have adapted our investigation to serve the study purpose.

There were 67 respondents, all small and medium entrepreneurs in the South East region of Romania. We selected the statistic population mainly based on the size of the business without any limitation industry. The questionnaire responses were given via electronic mail and in some cases was necessary an interview with the entrepreneur to explain the purpose of the action and the significance of some of the questions.

The first question was focused on how the enterprise involves itself in environmental responsible actions. The purpose of this question was to evaluate the knowledge in the field of environmental responsibility.

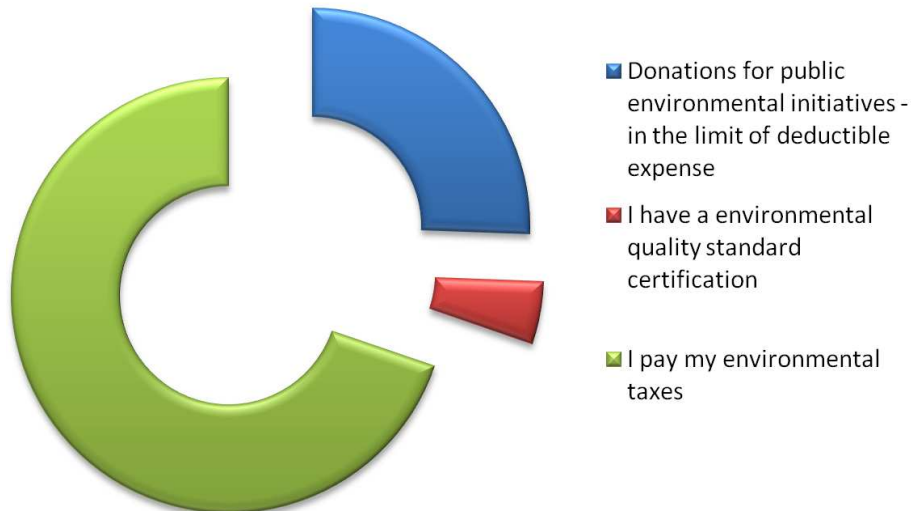


Figure 1 Answers for question 1: “Among the following actions, the most important are...”

Source: own assessments (2011)

The last response option was a trick one but most of the respondents chose it. This fact confirms the little knowledge of small and medium entrepreneurs in the field of social and environmental responsibility. Some of them do contribute to the budgets of some local initiatives but mostly promoted by the public authorities. Only 5% of the respondents have an environmental quality certification.

The second question was about what motivates the entrepreneur to involve his business in a form of environmental responsibility action. There were given three optional standard responses and a fourth blank free to be filled with other response than the three above. The blank option was filled by few respondents mainly explaining and detailing the above choices.



Figure 2 Answers for question 2: “I consider the main motivation for any environmental responsibility action...”

Source: own assessments (2011)

The responses for the second question we analysed confirm again the importance of the fiscal aspect in the way of manifest the business environmental responsibility. Some of the respondents do manage the relation with their stakeholders and have a good image about their direct interests in enterprise activity. They also connect the stakeholders’ satisfaction with the firm market image. The fewest responded that they “just care about the environment”. The respondents were free to have multiple choices but for this assessment we registered only the first choice considering it was the strongest feeling at the moment of the response. We gave the possibility to have multiple choices trying to avoid “politically correct” answers.

4. Conclusion

The general conclusion after assessing the results of the study is that the environmental fiscal burden has an impact on the environmental responsible behavior in the both ways – motivating action and diminishing the damage. Moreover in the case of the SMEs tend to have the only role in the involvement in environmental initiatives. The dimension of the respondent enterprises could have an impact on the results in the respect of the little financing possibilities for bigger initiatives or even own ones. Because of it the SMEs are satisfied to contribute to public initiatives but still strictly related to the fiscally deductible limit.

Our future purpose is to assess the possibility of establishing an econometric model describing the fiscal forces implication upon the environmental responsible behavior and also the characteristics of SMEs ecological footprint based on the data collected.

5. Acknowledgement

This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/1.5/S/59184 „Performance and excellence in postdoctoral research in Romanian economics science domain”.

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