INEQUALITY OF INCOMES – A MATTER OF FISCAL POLICY

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Abstract: One common criticism of globalization is its inequitable distribution of wealth. This criticism includes the income distribution in favour of developed countries at the expense of poor countries and redistribution of income between social classes of a state. This paper presents the problem of income inequality, viewed from the perspective of fiscal policy. This paper assumes that government or society as a whole cannot fight poverty and social exclusion without analysing what should be normal inequalities in a society, be them economic or social. From this perspective, we analyse income inequality at the global, European and national levels. Furthermore, we analyse the evolution of income in Romania in the last 20 years. By using data published by the World Bank, we determine the pace of income growth for the 5 instalments of 20% of population income.

JEL classification: D31, F68, I14

Keywords: globalization; income inequality; poverty; fiscal policy; social exclusion

1. INTRODUCTION

The European Union has proved in a short period of time a particular training capacity of new members, which reflects the tendency to expand the project on a continental scale and its performance proves progressive deepening integration into the intra-community background. Moreover, we notice the increasing role of the Union as a centre of economic power in the world economy. From an economic perspective, the funds established at the European Union level are directed through investment programmes for less developed areas in order to homogenise the European economy, as a whole.

The dominant feeling today of the world as a whole has been deeply rooted. Within this whole, links have developed between national systems which have deepened the interdependence process between them. Thus, increased *common consciousness* is a new phenomenon, which has rendered necessary to redefine concepts in terms of economic and political *world order*, *international recession*, thus, accrediting the very idea of *global product*, or if we consider pollution, as a *"call to save the planet."*[1] Moreover, increased global communication, the movement of goods, capital and ideas will work to amplify the movement of people.*"The consequences of*

[1] Gheorghe Postolache, Cătălin Postolache – Globalizarea economiei, Economic Publishing House, București, 2000, pp. 21

globalisation support global migration flows", according to Maria Costea and Simion Costea.[2]

We should notice that economies have become more and more unstable. In the last three decades, one aspect of this problem is low job security for many people. We admit that in less developed countries job security has always been low but the number of insecure jobs has increased during this period in many of these countries due to trade liberalisation speed. The real social costs of globalisation are often not perceived when aggregated indicators, such as unemployment or poverty show no deterioration. The reason is that these rates meet certain stability that could mask considerable problems in labour markets. There is evidence that these phenomena have become more evident with increased globalisation. It has no relevance for those who have lost their jobs or are below the poverty line whether statistics show that others have shared a much better faith and it has generally been managed to prevent unemployment or poverty reduction.

Governments and society as a whole cannot fight poverty and social exclusion without analysing the normal inequalities in society, be them economic or social. But data on income inequality are particularly important when we want to estimate relative poverty. This paper aims to analyse the relationship between fiscal policy and income growth pace, considering the effects of globalisation.

2. INCOME INEQALITY – A GLOBAL PROBLEM

One common criticism of globalisation is its inequitable distribution of wealth. This kind of discussion includes the international sphere in terms of developed countries income at the expense of poor countries and the national sphere, the redistribution of income between social classes of a state. Joseph Stiglitz considers that *"globalisation should not harm the environment, increase inequalities, inhibit cultural diversity and promote corporate interests at the expense of the welfare of ordinary citizens."*[3]

The global study of income inequality, although not new, is relatively recent and global inequality calculations were generalised at the beginning of the 1980s. This delay occurred because *„data on income distribution in each country were required"*[4], according to Branko Milanovic. Reducing the importance of income inequality leads to the idea that actions that government could undertake in order to reduce these inequities are too costly and even counterproductive. According to Friedrich Hayek, markets without governemt interventions are effective and the best way to support the poor is to leave economy to grow unhindered and the poor will benefit from the advantages of development, and these opinions have continued even after the realities of globalisation have shown otherwise.

Hayek considers that *„global forwarding speed due to those who move faster. Although in the beginning many are left behind, the cumulative effect of road training will be sufficient to shortly facilitate advance, so that thay could keep their place in line"* Hayek concludes by saying that*„the same forces that, initially lead to increased*

[2] Maria Costea, Simion Costea – Integrarea României în Uniunea Europeană: provocări şi perspective, Institutul European Publishing House, Iaşi, 2007, pp. 244

[3] Joseph Stiglitz – Mecanismele globalizării, Polirom Publishing House, Iaşi, 2008, pp. 13

[4] Branko Milanovic – Global income inequality: what it is and why it matters, World Bank Policy Research Working Paper 3865, March 2006, http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2006/03/02/000016406_20060302153355/Rendered/PDF/wps3865.pdf

inequality have a tendency to reduce it later on"[5] relying on the example of the USA, where the rapid rise of lower classes has lead to translating income sources from meeting rich classes to meeting the needs of the masses.

According to a report by the World Commission on the Social Dimension of Globalisation *„the unemployment rate rose between 1990 and 2002, reaching a new global threshold of 185,9 million inhabitants and 59% of the world population lives in countries where inequality is increasing and only 5 % lives in countries where it is falling."*[6] Globalisation has made the rich get rich and the poor often fail to maintain the constant standard of living. We admit that certain countries have benefited from globalisation because the GDP has increased, but globalisation has not been an advantage for the majority not even in these countries because globalisation might give rise to rich countries with poor people.

An example might be Spain. According to the Labour Force Survey in Spain[7] for the fourth quarter of 2011, the number of unemployed in the country was 5.273.600, with an unemployment rate of 22,85%. Since 2009, Spain has the highest unemployment rate among developed countries and the youth unemployment rate was 48,61%. In April 2012, the unemployment rate in Spain, was 24,44%, corresponding to a number of 5.639.500 unemployed and, thus, exceeding the maximum level established in 1994 of 24,55%, as shown in the estimates of the National Institute of Statistics in Spain. In comparison, the situation in Romania is much better. According to the national Institute of Statistics[8], the unemployment rate was 7,7% in the fourth quarter of 2011, increasing from the previous quarter (7,2%), and in comparison with the corresponding quarter of 2010 (7,3%). The employment rate of working age population (15-64 years old) representing the share of employed population between 15-64 years old from the total population between 15-64 years old was 57,9%, decreasing by 1,2% in comparison with the previous quarter and remained unchanged in comparison with the corresponding quarter of 2010. The economic dependency ratio (The number of inactive a nd unemployed people per 1000 employed people) was 1362%, which was quite worrying considering that 4 unemployed people depend on 3 employed ones.

Economic success requires a balance between government and market that would consider the services that should be provided by the governemt, public pension programmes, encouraging specific through subsidies, regulations to protect employees, consumers and the environment. More and more people live in poverty. Even as the poor procentage decreases, the absolute number of the poor increases due to the population growth phenomenon. The World Bank defines poverty threshold of 2 dollars per day, and absolute or extreme poverty threshold of 1,25 dollars per day. According to the World bank analyses[9] the situation has improved in terms of extreme poverty between 1990-2008 by reducing the number of the extremely poor population of the

[5] Friedrich von Hayek – Constituția libertății, Institutului European Publishing House, Iași, 1998, pp. 70-72

[6] International Labour Office - A fair globalization: creating opportunities for all, Geneve 2004, pp. 44, http://www.ilo.org/public/english/wcsdg/docs/report.pdf

[7] Spanish National Institute of Statistics - Labour Force Survey, Quarter IV 2011, http://www.ine.es/daco/daco42/daco4211/epa0411.pdf

[8] National Institute of Statistics - Press release no. 66 of 27 March 2012, http://www.insse.ro/cms/files/statistici/comunicate/somaj/somaj_IVr_11.pdf

[9] World Bank - Poverty & Equity Data, http://povertydata.worldbank.org/poverty/home

developing regions from 1,9 billion people to 1,29 billion, which, as a percentage, translates as a reduction of extreme poverty from 43% to 22,4%.

We undertake this analysis because we consider that income and higher living standards are important, but the privations associated with poverty are not limited only to the lack of money. For those who have a job, the feeling of insecurity is mainly caused by the risk of losing their jobs or reducing wages. These dangers can be covered to some extent by government interventions by providing senior citizens pension, aid for people with disabilities through health insurance, social benefits and unemployment. Unlike poor people, rich people generally have savings to protect them.

We consider that special attention in terms of income inequality should be given to education and health care. These fields have been fundamentally affected by globalisation. The close link between higher education and the possibility of obtaining high income shows the importance of studying opportunities for low income strata. Economically, in developed countries, financial resources are not a barrier for capable people to access to education. In Norway, for example, the literacy rate, defined as the percentage of the total population over 15 years old that can read and write is 100%, life expentancy tuition was 17 years old in 2008 and public expenses on education were over 6% of the GDP. In the USA, the literacy rate is 99%, life expentancy tuition is lower, i.d 16 years old, and public expenses on education is about 5,5% of the GDP.

With lower income, literacy rate decreases and in Romania was only 97,3% in the 2002 census, life expentancy tuition was 15 years old and public expenses on education do not exceed 4,3% of the GDP, although the expected percentage is 6%. In one of the poorest countries in the world, Rwanda, the literacy rate is 70,4%, men are advantaged, reaching a rate of 76,3% in comparison with women, who arrive at a rate of 64,7% and life expentancy tuition is only 11 years. And yet, as a share of the GDP, Rwanda's expenses on education approaches Romanian's proportion, 4,1% in 2008.

In terms of health systems, supporters of free market *„have long campaigned to transform health, to a greater extent, in an industry market"*[10], according to Charles Morris. Healthcare is one of the most dynamic and innovative sectors of economy. Medicine has advanced greatly as a result of technological advances and research, but not all categories of patients benefit equally from these advantages because those fields of medicine with reduced margin gains are ignored, like in the case of very expensive patients, with multiple chronic conditions. Income inequality has yet another influence, the higher the income, the higher the readiness of spending money to prolong life. Even with a reduced rate of economic growth, there is no reason why economy cannot support an increase in funding healthcare.

As an argument of income equity thesis, we will use the results of Ha-Joong Chang's analyses[11] that confirms that after World War II, in most developed countries, although there was a rapid increase in progressive taxation and social spending between 1950 - 1973 with the highest rates of economic growth, the income per capita increased by 2-5% in the USA, Great Britain and Western Europe and even by 8% in Japan. Compared with this period, before the war it has increased only by 1-1,5% per year. After this period, the fiscal policies of income redistribution experienced an involution to the benefit of economic liberalisation policies.

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[10] Charles Morris – Criza de un trilion de dolari, Litera Publishing House, Bucureşti, 2010, pp. 174

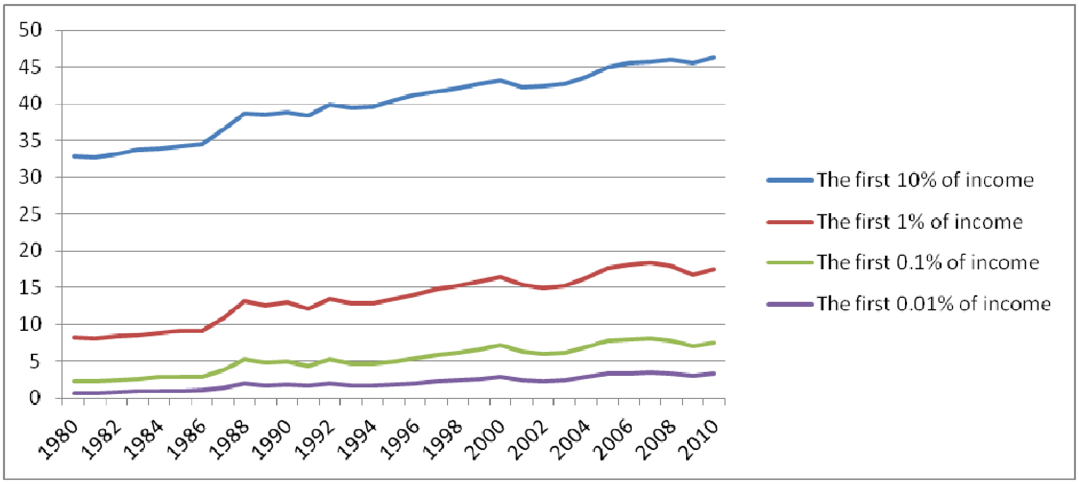
[11] Ha-Joon Chang – 23 de lucruri care nu ţi se spun despre capitalism, Polirom Publishing House, Iaşi, 2011, pp. 151-156

In the 1980s, tax reforms were implemented throughout Europe, following the same objectives and were based on the general idea that market forces may be a better guide to an effective tax policy rather than government intervention. Therefore, a number of steps have been taken to generate the tax shift from interventionism to tax neutrality in order to allow reducing distortions caused by taxes. The general aim was to reduce the tax burden by changing the income tax owed by individuals, but the fiscal measures that were taken varied from country to country, both in structure ans scope. Considering all tax measures related to shares, the tax base and facilities, we find that tax reforms in some countries led to a reduction in personal income tax share of the GDP, while in others, to an increase. In many countries, the ruling governments have usually supported top income distribution. There have been tax cuts for high earners because high income taxes have been reduced. Although the average country tax change has not been at a large scale, the income structure of the population has had a tendency to increase tax burden on groups of people with low and middle income and reduce it for groups of people with high income.

Financial deregulation has created opportunities for companies to record higher profits because they could better exploit monopoly positions. And increased trade liberation and foreign investments have caused wages to be low and income inequality has increased in most developed countries. Economic growth has slowed its pace after the implementation of neo-liberal inspired reforms favourable to those with high income in the 1980s. If we consider the World Bank data, the global economy had a growth rate of 3% per year in the 1960s and 1970s and after 1980, the growth rate was only 1,4% per year. A further discussion on this topic is weather redistribution of income to the top of the income pyramid would create more wealth, yet it is not mathematically demonstrated that low income people will benefit from these gains.

According to the date provided by The World Top Incomes Database[12], between 1980 and 2010, the richest 10% of the American citizens have achieved an increase of almost a third of the total income share held from 32,87%, in 1980, to 46,26% in 2010. Between 1980 and 2005, the richest 10% of the citizens have achieved an increase of 46%, which demonstrates that in the last 5 years the growth rate was zero. However, changing the distribution of income in this category is truly remarkable. Procentages from 90% to 95% have experienced a slight decrease from 95% to 99% have experienced a sligh increase which led to the corresponding income population ratio between 90 and 99% remain practically unchanged. The conclusion is that all the gain attributed to the first ten percent from the top income pyramid has returned a single percent.

[12] The World Top Incomes Database, http://g-mond.parisschoolofeconomics.eu/topincomes/



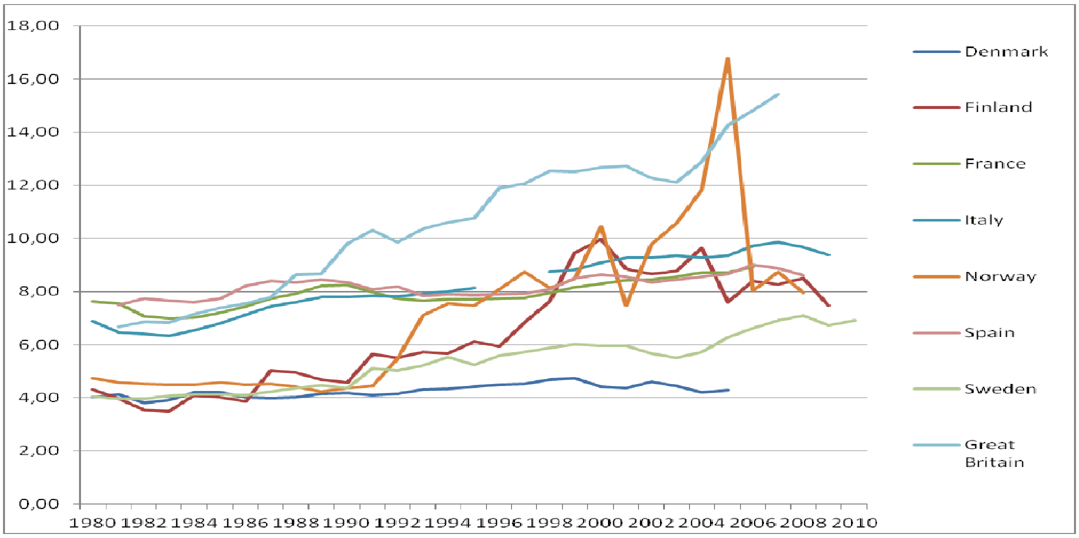
Source: World Top Incomes Database, available online on http://g-mond.parisschoolofeconomics.eu/topincomes/

Chart no. 1 Highest income ratio in the USA (% of total income)

The richest 1% of Americans have doubled their corresponding share of income from 8,18% to 17,42%. The richest 0,1% of Americans have managed even better, increasing their income over 3,3 times, from 2,23% in 1980 to 7,5% in 2010. Yet, these categories do not compare with the richest category of 0,01% of Americans, who have grown their income over 5 times, from 0,65%, in 1980 to 3,3% in 2010, as in chart no. 1. We have resorted to this comparison for the world's most developed economy because we find it interesting how a differential taxation, like the one used in the United States can afford the richest income growth and not their poverty as supporters of non-differentiation rates through progressive taxation argue. Of course, we cannot assess the impact of income redistribution only on account of its immediate effects. When incomes increase, thay can be used to increase investments and economic development. This phenomenon causes a long-term growth of the whole economy, but this does not mean that the relative amount of additional income remains constant.

3. INCOME INEQUALITY – A EUROPEAN APPROACH

We consider that redistributing income to people with low income will help restore growth in an economic crisis like the current one. This is because people with low availability tend to spend a higher proportion of disposable income. It is a stimulating effect for the economy if the income left to the poor will be used to purchase goods and services. Moreover, additional income could encourage workers to to invest in education and health, increasing productivity and economic growth, and greater income equality would inhibit social conflicts, reducing the number of strikes and crime. All this could create a proper framework for investment, risk interruption of the production process becomes more and more reduced. A redistribution to the top of the income pyramid will benefit the whole society only if higher investments would be required; this is the only way to divide development outcomes among all citizens.



Source: World Top Incomes Database, http://g-mond.parisschoolofeconomics.eu/topincomes/

Chart no. 2 The ratio of the highest 1% of total income in some European countries

By analysisng several European countries, as summarised in chart no. 2, shows that the trend of the highest 1% of income is similar to that found in the United States. There are, however, differences in the proportions change. With only one exception, the United Kingdom, which since 1981 has doubled the income ratio of the richest 1% of british citizens, the other considered countries have experienced much lower variations. Sweden is close to Great Britain, which experienced a growth rate of the first 1% of income of 1,71%, from 1980 until present day. An unusual situation occurred in Norway, a country which experienced a minimum of these income in 1989, of 4,24% and after a period of several substantial changes, it reached in 2005 a maximum of 16,78%, and the following year it dropped to less than half, reaching 8,04%. In Europe, social assistance and protection systems are developed and manage more important budgets than those in the United States. At the same time, in Europe we can find a much more equitable vision on income taxation which generates lower shares of very high incomes of the total income.

Eurostat, in a report published in 2010[13] showed that there were significant differences in terms of average income between the Member States in 2007, even if the report was made to the adjusted price defferences between countries, using the purchasing power standard method (PPS). Thus, the average income in Romania and Bulgaria were less than a fifth of the average income registered in the UK, Cyprus, Ireland, Austria, Holland or Germany and about 9 lower than those registered in Luxembourg. The income distribution by age groups is another important aspect. In the European Union, people over 65 years old, which is considered as retirement age, had an average income in 2009 of approximately 86% of the average income for people under 65 years old. Pension systems in Hungary and Luxembourg enabled exceeding the average of people under 65 years old by people over this threshold. In Romania and

[13] Eurostat Statistical books - Combating poverty and social exclusion 2010 edition. A statistical portrait of the European Union 2010, pp. 16-19, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/ KS-EP-09-001/EN/KS-EP-09-001-EN.PDF

in other countrie like France or Austria, the average income of people over 65 years old was more than 90% of the average income recorded for people under 65 years old.

It has also been noticed significant differences between the average incomes of different types of households. In 2007, the European Union households consisting of a single adult with dependent children (not more than 17 years old) reached an average available income of 12,8% lower than that of the households consisting of a single person without children. Households consisting of two adults with dependent children had an average available income of 13,5% higher than the available income of a household consisting of two adults and at least three dependent children and nearly a third higher than that of a household consisting of a single parent with dependent children.

Table no. 1 Inequality of income distribution in some European countries

Country / Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
EU (27 ţări)	:	:	:	:	:	5	4,9	5	5	4,9	5
Euroyone	:	:	:	:	5	4,6	4,6	4,8	4,8	4,8	4,9
Denmark	:	3	:	3,6	3,4	3,5	3,4	3,7	3,6	4,6	4,4
Spain	5,4	5,5	5,1	5,1	5,1	5,5	5,3	5,3	5,4	6	6,9
France	4,2	3,9	3,9	3,8	4,2	4	4	3,9	4,4	4,4	4,5
Italy	4,8	4,8	:	:	5,7	5,6	5,5	5,5	5,1	5,2	5,2
Romania	4,5	4,6	4,7	4,6	4,8	4,9	5,3	7,8	7	6,7	6
Finland	3,3	3,7	3,7	3,6	3,5	3,6	3,6	3,7	3,8	3,7	3,6
Sweden	:	3,4	3,3	:	3,3	3,3	3,6	3,3	3,5	3,7	3,5
Great Britain	5,2	5,4	5,5	5,3	:	5,9	5,4	5,3	5,6	5,3	5,4
Norway	3,3	3,5	3,2	3,8	3,6	4,1	4,8	3,5	3,7	3,5	3,4

Source: Eurostat, Inequality of income distribution, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=tsisc010

In 2010, at the European Union level, there have been great inequities in the distribution of income among the population, as shown on the European Union website under the heading *Statistics on income distribution*[14]: the first 20 percent of the population highest available income managed to gain 5 more than in the last 20 percent of the population with the lowest available income. This report is only an average of the Union, significant variations were seen in all Member States. This ranged from 3,4 in Slovenia and Hungary, to 6,7 in Romania, reaching 7,3 in Lithuania, as shown in Table no. 1.

In most countries, reducing fiscal disparities among social classes is a recognised objective of fiscal policy. The means by which fiscality can balance the income obtained by the population are an important instrument to achieve solidarity among rich and poor people. We believe that this discussion starts from the broader notion of equality: political equality through guaranteeing the right to vote, equal opportunities, ensuring equal access to employment, education and healthcare, equality of results through ensuring a vital minimum consumption.

Thus, given the source of income, equalisation through tax policy has two types: horizontal and vertical. Horizontal equalisation involves analysing the relative

[14] European Union - Statistics on income distribution, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Income_distribution_statistics/ro

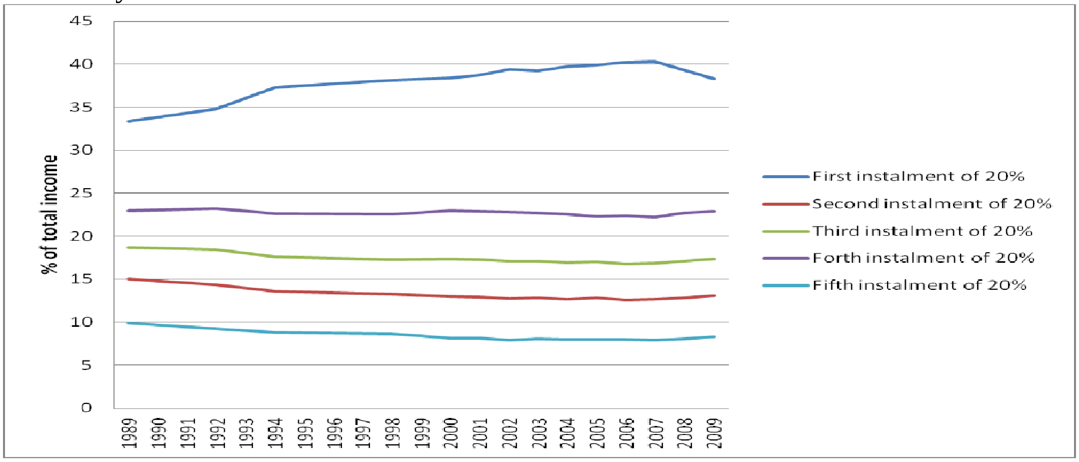
size of the income tax burden. According to this principle, we compare a person's tax burden to income for a specific source tax to another person who is liable to income of the same size but from a different source. With horizontal equalisation, we consider that a relatively simple distinction can be made between tax rates used for each source by considering the effort for each activity producing income, with vertical equalisation; such a distinction has always created controversy. Tax equity is not a purely economic concept, it does not respect the principle of remuneration according to effort and thus, value judgements in this field belong to economists, lawyers and sociologists. Equality does not imply the same costs and benefits for everyone and attempts to reduce income inequity through progressive taxation or public budget incurring of social assistance programmes can affect motivation to work and save, affecting the objectives for a better life, those aimed at a sustained economic growth and technical progress.

We consider that a distinction must be made between labour income and property exploitation income. Especially in times of economic instability, labour income varies widely due to shrinking markets and the competitiveness set by the market, which requires abilities and new skills. Another source of instability of labour income is rendered by the differences between proffesions determined, among others, by the volume of existing human capital. A lack of specialists in a particular field may increase labour income in that area due to a temporary disequilibrium in the labour market and not because of sustained work. On the other hand, property exploitation income by renting or leasing, although they may vary just as much, they do not always require the same effort as lobour income. Thus, obtaining an inheritance helps rich people descendents have an advantage over those who acquire their wealth of the available net income after paying taxes.

4. Income Inequality – Romania

In Romanian fiscal policy, fiscal equity principle at the level of individuals remained until 2005 by imposing different incomes according to size. Following withdrawal of progressive tax rates, this principle does no longer appear in practice, although Romanian legislation keeps the principle of establishing taxes. This is because the amount of tax is higher when income increases and with proportionate shares, which may give to our mind, the wrong impression that taxation of high income is equitable since the paid tax is also high. But using the proportional share puts taxation for the rich and the poor on the same level. Proportional share is regressive, despite including as much income categories in the tax base as possible, whereas the beneficiaries of fiscal relaxation who use this share were represented by a small number of people with with high incomes. Thus, the introduction of a 16% increased social differences and led to a polarisation of income because those with high incomes were able to improve their standard of living to a far greatee extent than those with lower incomes.

Generally, it is considered that wealth is a reward for sustained work. According to this view, redistribution of income determines not only the disappearance of work incentives and savings, but it is also almost immoral because it deprives people of their deserved rewards. We consider that those who emphasize economic efficiency tend to be less concerned with non-economic values such as social justice, the environment, cultural diversity and universal access to healthcare. An indication of income inequality can be obtained if we analyse how minimum wages are reported to average earnings. Not all European Union Member States have a national legislation that settles the minimum wage guaranteed payment, such as Romania, but even if there is not such legal provision, the minimum wage can be substantial. Thus, according to Eurostat data[15], the minimum monthly wage in 2008 was less than a third of the average monthly earnings in industry and services in countries such as Poland, Estonia and Romania. Instead, it represented more than 50% of the average monthly earnings in industry and services in countries such as Malta and Luxembourg. Another relative assessment can be made by comparing the highest income individuals with the lowest incomes. This method is often used as an indicator of social cohesion by comparing the total income received by the richest 20% of the citizens with incomes of the poorest 20% of the citizens. This report varied considerably between the European Union Member States from less than 3,5 in Slovenia and Sweden, to almost 7 in Romania, in the last 3 years.



Source: World bank, http://data.worldbank.org/indicator/SI.DST.04TH.20/countries

Chart no. 3 Income ratio instalments in Romania

An analysis of the evolution of income in the last 20 years in represented in chart no. 3, which reveals a worrying situation. By using the data published by the World Bank, we notice that the income growth pace was different for the 5 instalmets of 20% of the population income. If in 1989, the highest share of 20% of population income was only 33,3% of total income, in the years of transition to a market economy, they had a more pronounced growth trend, reaching between 2006-2007 a share of over 40% of total income. This increase can be seen on account of the tax system changes in 2005, by shifting from progressive taxation to taxation at the rate of 16%. The years of economic crisis had an important influence and in 2009, the highest shares of 20% of total income decresed to 38,3%. The second instalment of 20% of the highest income had a different trajectory.

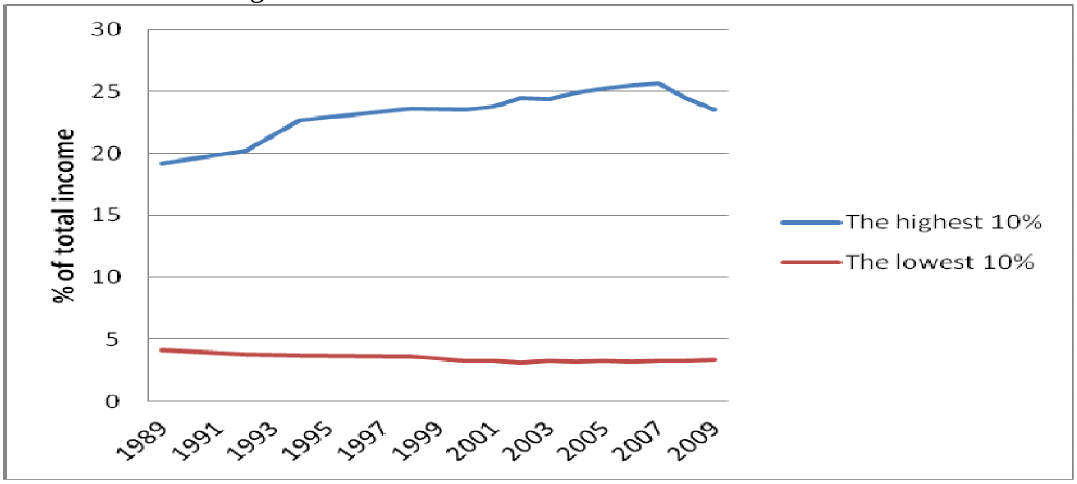
If in 1989, this instalment reached 15% of total income, in 2009 it decreased to 13,1%. This is the point where we have to note a discrepancy. If the first instalment of 20% of the highest income constantly exceeds the 35% threshold, the following instalments are all below 25% and the decreasing order of shares in total income is as follows:

- The first instalment of 20%;

[15] Eurostat - Combating poverty and social exclusion, 2010 Edition. A statistical portrait of the European Union 2010, pp. 16-19, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-EP-09-001/EN/KS-EP-09-001-EN.PDF

- The fourth instalment of 20%, corresponding to below-average incomes;
- The third instalment of 20%, corresponding to average incomes;
- The second instalment of 20%, corresponding to above-average incomes;
- The fifth instalments of 20%, corresponding to low incomes.

It is gratifying that the first 20% of the highest incomes are the most numerous and the first 20% of the lowest incomes are the less numerous, less than 10%, which leads to the idea that high incomes prevail, but in reality, there is an income segregation in the Romanian society. Rich people get richer, given the growth of these incomes, whereas people with low incomes get poorer, given the high share of those with incomes below average in total income.



Source: World Bank, http://data.worldbank.org/indicator/SI.DST.10TH.10/countries

Chart no. 4 The highest and lowest income ratios in Romania

A similar analysis can be made by restricting the scope of analysis of the highest and lowest incomes, thus, chart no. 4 summarizes the shares of the highest 10% of income and the lowest 10% of income. If the first 20% of income had a growth pace of 14,87% between 1989-2009, the first 10% of income increased faster, at an average rate of 22,33%, which entitles us to state that the fiscal policies promoted by the Romanian state have favoured those with high and very high incomes. The aggregate available incomes following the introduction of a 16% rate, tax reform combined with the increase in gross wages, particularly public sector wage increases have lead to increased consumer credit and population indebtedness.

5. CONCLUSIONS

From an economic perspective, the argument that globalisation will prove beneficial for everyone became unlikely because the current process of globalisation generates income inequalities, both within countries and between different countries, creating additional pressure on public funds and as an effect of fiscal policy; moreover, too many countries and people do not enjoy the created advantages.

Of course, economic globalisation has advantages such as access to global markets and global dissemination of knowledge, which allows less developed countries to take advantage of technical progress and innovations occurring in developed countries, but globalisation puts material values over other values, such as the concern for the environment and life and imposes on poor countries an inadequate economic system, which is often very harmful and is characterised by oppressive taxation for those with low incomes and privileges or even exemptions for transnational companies, which have become, very often, strategic companies.

We consider that fiscal policy plays an important part in in this area by the tax type that one can use to stimulate income growth. Thus, in order to reform the social security of people in need, we propose a method to supplement income through tax subsidization, i.e. a tax system with low tax rates if these people achieve income for short periods of time. In this way, we consider that they can be stimulated to look for a stable job.

Considering the above mentioned data, we draw the following conclusion: fiscal adjustment plans may require raising taxes and lower public spending, but we must consider the tax burden which represents the responsibility of each taxpayer so as to ensure a decent standard of living for every member of society and measures to reduce abuse. Governments must also protect the educational system from the drastic spending cuts and improve employments prospects for young people and as far as wage cuts in the public sector are concerned, they should exclude lower levels of pay. For example, in the context of rising unemployment, Latvia provided a minimum central level of social assistance; moreover, locally, employment support programmes have been introduced. In terms of fiscal incomes, plans have to focus on higher incomes. For example, Greece and Portugal have increased taxes on high income instalments, whereas Spain has introduced a wealth tax and Greece has increased property taxes.

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