

THE EVOLUTION OF THE FISCAL PRESSURE ON A NATIONAL LEVEL. INTERNATIONAL COMPARISONS

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Abstract: Romania has adopted a series of measures which should contribute to the strengthening of the competitive mechanisms, and the reform was based on the idea that the most important support which may come from the state is to create the constitutional and legislative frame which should strengthen the role of the competition in absorbing the tensions by rethinking the tax system, thus responding to the current requirements regarding the role of the state in economy. There were adopted a series of measures regarding the reduction of the fiscal pressure and there were some attempts to adapt this fiscal pressure to the requirements of a modern tax code. There were granted a series of fiscal facilities in order to sustain the capital, but which were materialized in increasing the profit left for the economic agents after paying the taxes. Based on principles practices in states having a market economy, the new income tax system was correlated with the new accounting system and the VAT mechanism.

In the period after 1989, a new market economy was founded in Romania, starting from the supercentralized socialist economy. The tax system from Romania which also existed before 1989 had an organization and a structure which were integrated in a centralized system. Because of this reason, in the beginning of the transition period to the market economy, Romania was in disadvantage towards the new European states which were improving the fiscal system according to the priorities of the economic policy, aspect which created the emergence of the main motivation of the fiscal reform:

- providing the compatibility of the tax system with the market mechanism (by this one tried to eliminate the taxes referring to the centralized economy);
- providing with the help of the taxation the free movement of goods and services;
- providing a corresponding report between the gross domestic product and the average tax burden.

The fiscal policies promoted by the governments from Romania have influenced both the structural evolution of the tax system but also the tax bites. We can mention the following distinctive steps in the fiscal reform from Romania:

- the step of replacing the own regulations of the tax system which is typical for the centralized economy with regulations specific for the tax system of the states which are in the transition to the market economy and the re-emergence of some institutions as the Financial Guard and the Court of Accounts. This model resembles the tax system of the states from the European communities and the period in which this stage was accomplished was between 1991 and 1993;

- the stage of adapting, completing and of improving the regulations adopted in the previous period, at the same time with some important measures of transforming the institutional frame in the period 1994-2000;

- the stage of improving the legislative and institutional frame from the perspective of the negotiations regarding the accession to the European Union starting with 2001.

Looking back at the Romanian model and taking into account the official statistics and the current typology of the incomes, one can notice that in the post-war period the taxes represented 5% from the total of the budgetary incomes. Most of the part of the budgetary incomes came from the state enterprises. In the post-December period the level of the taxation for 1989 was recalculated and it was statistically settled that it was situated around 43,6%. In the next period, neither the Statistics Institute and nor the Ministry of Finances settled and exact degree of the existent taxation, this problem remaining unsolved together with other data regarding the distribution of the incomes. In spite of these there were some data on the level of the Ministry of Finances for the determination of these stages.

Table 1

**The taxation degree according to data from the Minsitry of Finances
(1990-1995, % from GDP)**

Year	1990	1993	1994	1995
Degree of taxation	37.5	33.4	30.7	33.4

Source: Corneliu Gorcea, The Magazine: Taxes, no. 1-2/1995

Another attempt of determining the degree of taxation was also made by the experts from the ministry of Finances, their analysis being different from the previously presented data.

Table 2

**Estimating the degree of taxation by the experts from the Minsitry of Finances
(1990-1995) and according to the official data (2000-2005)
-% from GDP –**

Year	1990	1991	1992	1993	1994	1995	2000	2004	2005
Taxation degree in relation with the total incomes	36.9	33.8	35.3	33.5	32.0	34.4	31.5	31.1	32.4
Taxation degree in relation with the tax incomes	35.5	33.2	33.5	31.3	28.2	28.8	29.4	27.4	27.5

Source: Aurelia Duca, Taxation, macroeconomy, microeconomy, Adevarul Economic no.4/1996 (for the years 1990-1995); The annual NBR report, 2004 (for the years 2000-2004); Monthly Bulletin of Statistics no.7/2007 (for the year 2005).

If we analyze the presented levels and the opinions regarding the taxation degree and the way of distribution, we can notice that some authors considered that the level of the fiscal pressure from Romania is not high (by reporting it to the European Union) but is unequally distributed. Others were situated on the other side considering the fiscal pressure to be high and unequally distributed.

The academician C. Ionete considered in 1994 that the taxation degree in Romania is more than excessive and V. Sălăjan considered four years later that Romania is the country with the highest level of taxation as compared to the economic power and the social standard.

Nicolae Hoanță was decided when he asserted that the fiscal pressure although it fits into the tendency registered by most of the European countries, has a tendency to take taxes from the Romanian tax payers, after the payment of all obligations the citizen has no income necessary for the living.

This harsh criticism are also embraced by other theoreticians which after carrying out a comparison of the Romanian tax system with the American one notice that “we beat the Americans”, the tax becoming “the elder brother of the salary”. In Romania there was registered an international premiere “taxes higher than income”.

If we really analyse the reduced capacity of the individual to contribute and the degree of fulfilment the obligations from the part of the enterprises, we will notice that the taxation has a very high level in Romania. If we put the problem of the way of distributing the taxation we notice that the tax payers are among the population and the small and medium sized private enterprises because the large enterprises and especially the ones with major state capital were gaining debts and it was impossible for them to be tax payers for the state budget.

This means in fact that the taxation in Romania is unequally distributed. In the last years one tried to reduce the fiscal pressure in order to stimulate or to create the premises for the development of the business environment and in order to try and re-establish the situation of the incomes of the natural persons.

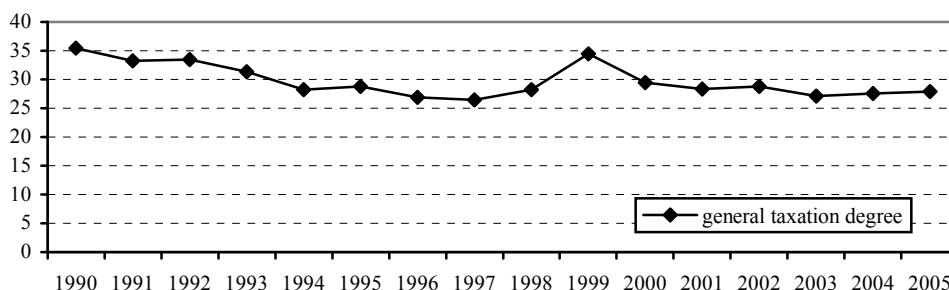


Fig. 1: General taxation degree in Romania in relation to the tax incomes from 1990-2005(% from GDP)

The fiscal relaxation (see fig.no.1) had some limits under the circumstances of a high volume of budgetary expenses and expenses due to the pre-accession process and accession process to the European Union. The reduction of the average of the assessed taxes did not lead to a real fiscal relaxation for the population for two reasons:

- the fiscal relaxation which was produced on the level of the direct taxation was accomplished under the circumstances of the aggravation of the indirect taxation (the growth of the excise and VAT rates from 9% to 11%, and recently from 18% to 22% the current standard rate being of 19%);

- in what the reduction of the assessed taxes, owed by the natural persons, is concerned, by giving up the progressive tax return rates and passing to the flat return rate, the persons with high incomes obtained from their working place benefited from this.

The same thing happened for the tax on profit where the reduction from 38% to 25% and recently to 16% favoured the high tax payers for the state budget.

In consequence, although the fiscal relaxation seems easy to accomplish, is in fact a quite difficult procedure because of the following reasons:

- it is hard to fight against tax dodging and corruption;
- there is a high risk of the discriminative taxation;
- the phenomenon unfair competition appears and is exerted by the state enterprises;

- the bureaucratic apparatus is weakly trained and there is a high degree of corruption;
- there is a lack of administrating the public expenses;
- the high level of the budgetary expenses and their weak cover by the incomes because of the weak economic development.

After analysing the taxation from all these points of view, we may ask ourselves a question which has a quite difficult answer: how much should be the optimum level of taxation? The difficulty to answer this question comes from the opposed interests: the state wants on one hand a high level of taxation because of the ascending trend of the public expenses, but on the other hand the tax payers want a lower level in order to take advantage of more financial funds. If we analyse taxation on an international level we notice that its tendency is to increase and not to decrease.

So, Vauban considered in 1702 that there should never be reached the level of taxation of 10%. The physiocrats settled the threshold of 205 from the individual incomes and Proudhon had set it in 1868 to 10% from the national income so that Colin Clark could raise it to 25%.

Giscaud d'Estaing set the taxation threshold for France in 1974 to 40% from GDP, but in 1983 it reached 44% and it was exceeded in the Northern countries.

The statistics confirm the general tendency of growth for the level of taxation (table no.3). As one can notice the tendency of taxation is to continuously grow with two exceptions: that from the year 2000 where one notices a slight fiscal relaxation both for the OECD and for the European Union and of the year 2005 when the same fiscal relaxation can be noticed. One has to keep in mind the fact that in 2001 even if there is a descending tendency of the average taxation, this is registered only in a relative size because, for its absolute size there had been registered a higher level of incomes from the state budget, growth determined mainly by the intensification of the economic activity. In what the year 2005 is concerned, the reduction of the taxation degree for the European Union is due to the accession of the 10 new Member States.

Table 3

The analysis of the financial profit rate in the period 2001-2005

Year	Average Taxation rate (% from GDP)	
	OECD	EU
1965*	26.7	27.3
1985**	36.9	39.6
1990	37.8	39.6
1994	38.4	42.5
2001	36.9	41.0
2004***	37.1	42.5
2005***	36.9	42.2

* The highest level of taxation was registered in Sweden (35,2%) and in Spain and Turkey the lowest (14,3% respectively, 15%).

** the minimum level was registered in Sweden (50,4%), and the minimum level in Turkey (19,7%).

*** EU 25

Source: Information taken from the website of the Organization for Economic Cooperation and Development, www.oecd.org

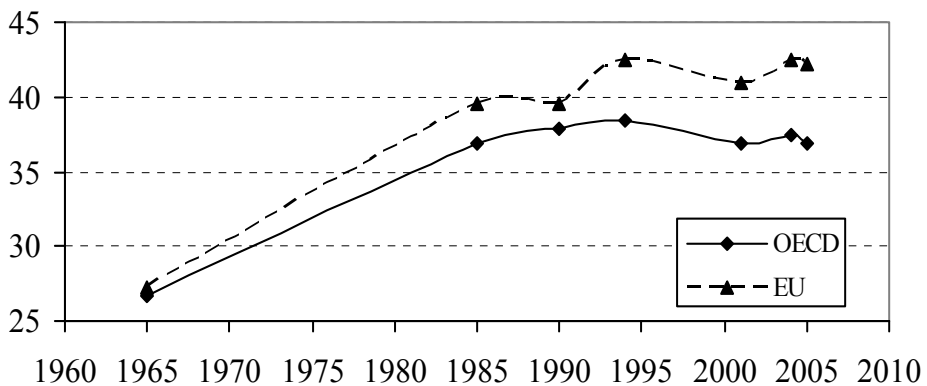


Fig. 2: The evolution of the average taxation rate in the OECD countries and in the European Union (% from GDP, 1965-2005)

Pierre Di Malta, after carrying out an analysis in 1992 on the level of the European Union, grouped these states according to the level of taxation:

- The first group contains strong interventionist states having the highest degree of taxation (Denmark 48,9%, The Netherlands and Luxemburg 46,7%, Belgium 45,4%, France 43,7% and Italy 42,4%);
- The second group has a lower level of taxation (below 40% and here we can mention Germany);
- The third group of countries which contains the countries with the lowest level of taxation (Great Britain, Spain, Portugal, Ireland and Greece).

A work group of the foundation Saint Simone (study performed under the guidance of Dominic de la Martiniere) carried out another grouping of the member States of the European Union, according to the level of taxation, as it follows:

- The Scandinavian countries (where the degree of taxation registers 45% from GDP) which had a taxation situation characterized by the prevalence of the assessed taxes, small or medium social fees and an indirect taxation;
- The Latin countries. Here the level of the tax bites is lower, the direct taxation is not very overwhelming but the low tax on profit is compensated by higher social contributions. The indirect taxation is higher below the level of the Scandinavian countries;
- The Anglo-Saxon countries which have low global taxes or medium taxes where the tax on profit is high, the social contributions are not very overwhelming and the indirect taxation is reduced in the case of the general taxes on consumption but the excises have a high output.

If we presently make an individual analysis of the taxation in the Member States of the European Union (table 4) we see significant differences between the states which lead us to the identification of four tendencies which correspond to some different groups of states.

Table 4

**The evolution of the taxation degree in the Member States of the European Union
(% from GDP)**

Country \ Year	2000	2001	2002	2003	2004	2005
Austria	45.7	44.7	46.5	45.4	44.4	43.6
Belgium	48.1	48.0	48.2	48.7	47.4	47.7
Denmark	52.3	50.4	50.7	49.7	49.9	51.2
Finland	47.2	48.2	46.2	46.1	43.7	44.0
France	47.3	46.8	46.5	45.6	45.7	45.8
Germany	43.9	44.0	42.2	41.7	40.2	40.2
Greece	39.6	40.9	39.2	39.8	38.5	38.1
Ireland	33.4	33.3	31.6	29.8	31.9	32.2
Italy	43.6	43.1	42.9	42.4	41.0	40.8
Luxemburg	41.5	41.4	41.6	42.1	38.8	39.1
The Netherlands	41.6	41.5	40.0	39.4	38.7	39.2
Portugal	36.7	37.3	36.5	37.5	35.4	36.3
Spain	35.3	35.9	35.7	36.2	35.4	36.4
Sweden	54.6	54.7	52.9	51.0	51.3	52.1
Great Britain	38.1	38.7	38.4	37.0	37.4	38.6
Cyprus	29.5	31.4	32.7	32.5	34.1	36.2
Czech Republic	34.8	34.5	34.6	35.5	36.8	36.3
Malta	29.5	29.7	31.9	34.3	36.2	37.7
Estonia	34.4	32.2	31.6	32.4	31.5	31.0
Hungary	39.2	39.6	39.3	38.9	38.7	38.6
Latvia	32.6	30.3	29.1	28.9	28.7	29.6
Lithuania	32.1	30.2	28.8	28.6	28.6	29.2
Poland	37.2	35.2	35.4	35.5	32.7	34.2
Slovakia	34.7	33.2	32.1	32.5	30.0	29.5
Slovenia	39.8	39.3	39.4	39.7	39.9	40.7
Romania	30.1	29.2	28.0	28.0	27.8	28.8
Bulgaria	32.6	31.4	30.2	32.9	34.6	34.8

Source: 2000-2002: Direct communications from ministries of finance, IMF country reports (various issues); OECD, Revenue Statistics; 2003: EUROSTAT, Statistics in Focus, Economy and Finance, 3/2005, „Tax revenue in EU Member States: Trend, level and structure 1995-2003”; 2004-2005: EUROSTAT, Statistics in Focus, Economy and Finance, 31/2007, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-07-031/EN/KS-SF-07-031-EN.PDF

Analysing the data presented in table 4, we see that in what the taxation degree of the member States from the European Union is concerned, in the period 2000-2005, this registered a descending trend in most of the cases (Austria, Finland, France, Germany, Greece, Ireland, Italy, The Netherlands, Estonia, Hungary, Latvia, Lithuania, Slovakia and Romania). In the case of Italy we notice a complete decrease for the six years of analysis starting from 43,6% in 2000 to 40,8% in 2005.

In the rest of the states, the tendency of the taxation rate was an ascending one, with small fluctuations from one year to another, with the exception of Malta where the taxation rate was a strong ascending one (from 29,5% in 2000 to 37,7% in 2005).

Following the tendency that was registered on an international level in 2005 there was noticed a reduction of the taxation degree for seven states (Austria, Greece, Italy, The Czech Republic, Estonia, Hungary and Slovakia), One single state registered a constant degree of taxation as compared to the year 2004 (Germany) and the rest of the states followed the ascending trend of taxation as that compared from the previous year.

There were registered high growth on the level of five states which manages to overcome the level from 2000 as compared to the others where there were some fluctuations in the period 2000-2005 and here we can find Cyprus, The Czech republic, Malta, Slovenia and Bulgaria.

From the analysis of the data presented in table 4 we see the existence of two states having a high degree of taxation (over 50% from GDP), respectively Denmark and Sweden, the latter having the highest degree of taxation from the European Union.

In what the states with a low degree of taxation are concerned, here we can mention countries as Ireland, Spain, Cyprus, Malta, Latvia, Lithuania, Romania and Bulgaria, where the percentage is around 30% and most of this comprises the new Member States or states which use the taxation rate as a way of drawing foreign direct investments, alternative which many lead to sustainable economic growths.

A third group of countries includes Denmark, France, Ireland, Italy, Latvia, Lithuania, Hungary, Sweden and Great Britain where the tax incomes has almost the same evolution as in those of the European union on the whole: a decrease between 2001-2003 and a growth starting with 2004. For example, in France and great Britain the collected sums went down from 46,8% and 38,7% from GDP in 2001 to 45,6% respectively 37,5 from GDP in 2003 after which there was a slight growth to 45,7% and 37,4% from GDP in 2004 and in 2005 there was a registered level of taxation of 45,8%, respectively 38,6%.

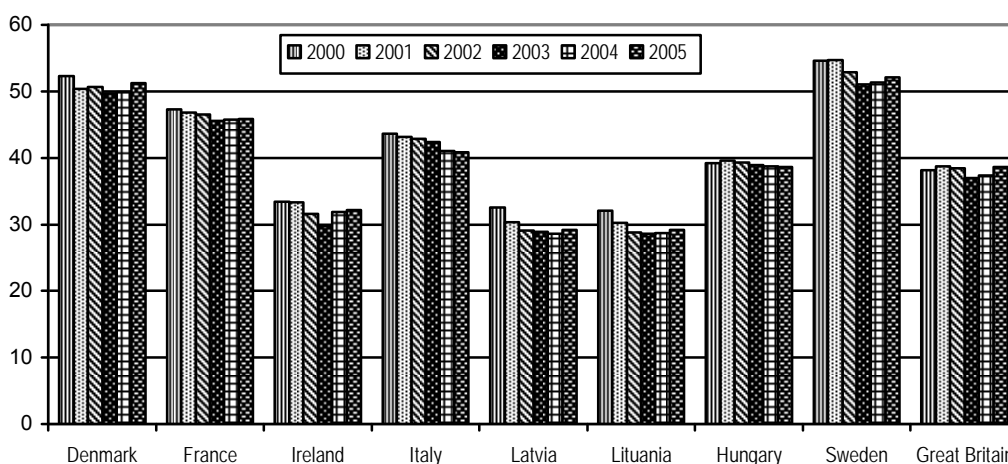


Fig. 3: The evolution of the taxation degree in the countries from the European Union

At last, the fourth group of states contains Belgium, Cyprus and Slovakia where we cannot draw a clear tendency regarding the taxation degree along a certain period of time.

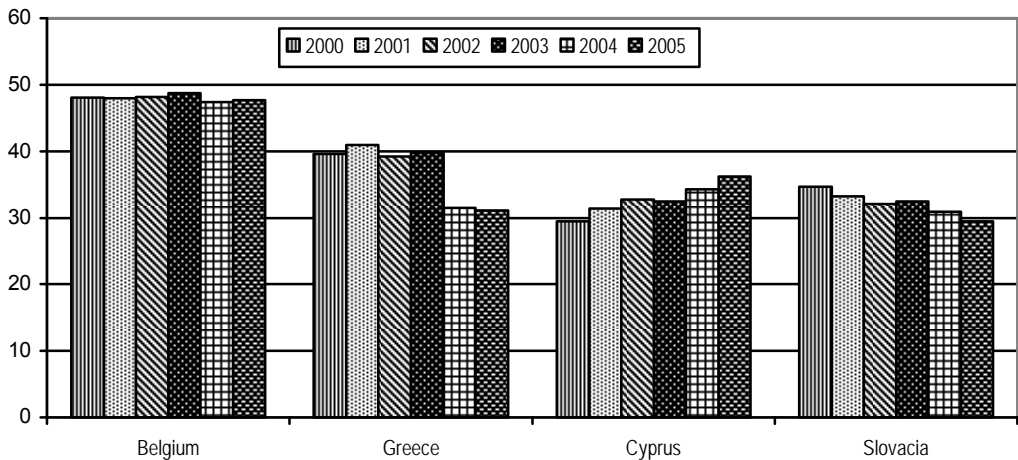


Fig. 4: The evolution of the taxation degree in the countries from the European Union

If we analyze the level of the tax incomes of the Member States in 2005 we can notice other four tendencies which are specific for some countries which have not been previously mentioned:

- six countries (Belgium, Denmark, France, Austria, Finland and Sweden) have a level of the tax incomes above the EU 25 average reaching from 52,1% from GDP (Sweden), to 43,6% from GDP (Austria);

- a second group of countries which comprises Germany, Italy, Luxembourg and Slovenia have a level of the fiscal incomes close to the EU 25 average, respectively 40,8% from GDP in Italy and 40,7% from GDP in Slovenia;

- a third group and the largest group of states includes the Czech Republic, Estonia, Greece, Spain, Cyprus, Hungary, Malta, The Netherlands, Poland, Portugal and Great Britain, where the level of tax incomes is situated under the EU25 average. For example in The Netherlands the fiscal pressure reaches the threshold of 39,2% from GDP and in Poland of 34,2% from GDP;

- in the end four countries (Ireland, Latvia, Lithuania and Slovakia) the fiscal pressure registers an extremely low level being situated around 30% from GDP.

What is certain is the fact that the high differences of the taxation degree from EU 27 combined with other components of the fiscal regimes from the respective countries as well as the diversity of the taxation system and of the social care system affect the efficiency of the European integration. If we analyse the disparity which separates Romania from the developed countries (in what the taxation is concerned) we may ask ourselves: "how should this lowest degree of taxation be perceived by the Romanians: with a feeling of satisfaction, content or frustration?"

Theoretically, but justified for each member of the society which is in the situation of a tax payer, a lower rate of taxation would be beneficial and it will allow the citizen to have some savings in order to satisfy their own consumption, investments, development needs, etc.

In consequence, from the comparisons made between the different states we see that the differences regarding the degree of taxation and the evolution of the taxation pressure is due mainly to the economic-social programs (in some states a series of

social actions are supported directly by the population). If we analyze this from this point of view and we refer to Romania it is obvious the fact that the taxation degree is determined by some specific circumstances:

- the existence of some strategic infrastructure objectives, of environmental protection objectives, etc., objectives which are maintained in the funding obligations of the state;

- free services which are essential for the population.

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