LANDMARKS OF CONTEMPORARY FISCAL POLICY IN THE EUROPEAN UNION

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1. Introduction

Generally speaking, fiscal policy is the managing of the state of its taxes and the governmental expenses so that the economic balance should be realized or kept throughout the economic system. Because the state's income and its expenses are managed by means of its budget, fiscal policy is also known under the name of budgetary policy.

There are, however, opinions according to which the budgetary policy must be understood especially as a governmental policy of expenses, while fiscal policy should render the policy of taxes and duties. Therefore, we thus join those who see fiscal policy both as a policy of taxes and governmental expenses as well as duties.

In this context, we can ascertain that in the majority of the fiscal policy approaches are many references, especially to elements of technical nature of fiscal regulations, such as the regulated level of tax quotas and their comparison with those applied in other countries, or aspects of administrative nature while in less papers there are references to the elements that resulted from the fiscal policy in the economic reality.[1]

Fiscal policy is an indirect form of state's intervention into its economy. That means that the objectives of macro stabilizing the state are not met immediately, but in a way mediated by the fiscal policy instruments. As a matter of fact, both in specialized literature as well as in practice, fiscal policy is named, along other indirect ways of intervention in the economy, *adjustment policy*[2].

When establishing its governing program, the political power has to clearly inform the public opinion about its intentions related to the fiscal policy it will promote, as follows[3]:

- what place will taxes, duties and contributions take to the total amount of public financial resources; what kind of taxes will support the public treasury: income taxes /profit and fortune taxes (capital) or the ones on consumption;
- what is the grade of taxation policy as against the gross domestic product they consider being possible to be met;
- how will fiscal duties be divided between natural persons and legal entities;
- if the level of income taxes will be the same for everyone, regardless of their socio-professional structure;
- the level of profit tax will be the same for all legal entities, regardless of their society type;
- if taxes will be used exclusively as ways of supplying the budget with financial resources or will serve as influential instruments over economic life and as redistribution of incomes between the members of a society;
- if taxes are kept an active role, that is interventionist, what will they consist of

[1] M. Pirtea and co., New approach of measurement methods and forms of tax policy effects in Romania, Finance – Challenges of the Future, year IX, no. 11/2010, Publishing house Universitaria, Craiova, pp. 72-76

[2] P. Brezeanu and co., Macrofinance, Publishing house Meteor Press, Bucharest, 2007, pp. 163

[3] I. Văcărel, Economical and financial policies from yesterday and today, Publishing house Economica, Bucureşti, 1996, pp. 223

and what useful effects are thought to be brought.

In addition to this, other problems can be added as well, such as:

- fiscal policy will be a continuity policy, with adaptations imposed by internal conditions and external circumstances, or a novelty policy which aims to settle its boundaries against the policy promoted in the remote or closer past;
- fiscal policy will be established in a larger stream, to which other countries from the same geographical region (sub region) or group have adhered to, or it will be an original policy, settled mainly by the local economic, social and other type of conditions and national interests;
- in order for fairly remote objectives to be met immediate measured are imposed, but with a long-term effect or successive preliminary measures, divided in more stages;
- fiscal policy is an integrant part of the state's financial policy. In return, the financial policy has to be correlated with monetary policy and other segments of the economic and social policy, as well as with the policies for environmental protection, national defense etc.

Regarding the fiscal measures taken lately by the Romanian authorities and those that are due to be taken, pro and against opinions have been expressed. The confrontations between ideas are extremely useful because they could contribute to the resolving of some controversial problems, to a better substantiation of our country's fiscal policy, beginning with the conditions and realities of the stage we are now following. The stated opinions thus aim:

- the promoting of an active fiscal policy, i.e. interventionist, or a policy that should aim the neutrality of taxes, the fiscal non-interventionism;
- either to have an own fiscal policy or to join the states' policy we are the closest to (from an economic point of view);
- either to give priority to the vertical fiscal equity or to the horizontal one;
- either to resort to direct taxes or to the indirect ones.

2. Interventionism through taxes vs. neutrality of taxes

In the 80s of the twentieth century, a fiscal reform has been carried out throughout the entire Europe. It was then considered that the measures taken in the developed countries have had the same orientation, aiming the same objectives, offering a role model to the former socialist countries, currently in transition to the market economy.

Therefore, the fiscal reforms that have taken place, especially in developed countries have had as basis the general idea that the market forces can be a better guide to an efficient tax policy than the government's interventionism. In conformity with this idea, a series of measures have been taken in order to generate the movement of taxes to neutrality, which also allows the reduction of distortions generated by taxes.

Fiscal reforms have been determined by many factors, such as:

- increasing taxation policy caused people's discontent;
- fiscal systems had become extremely complicated and offered multiple ways of evasion;
- fiscal systems exercised a bad influence on the economic increase;
- in some countries, the opinion according to which the Keynes's view (the necessity of the state's intervention in the economy) gained more popularity and proved its incapacity of giving a new impulse to the economy, being thus forced to give up the intervention of the state by means of taxes, in favour of the free action of the market forces.

In general, they aimed for the reduction of the fiscal duty by means of income taxes owned by natural persons. However, the fiscal measures have

varied from one country to another, both as structure and extent. Therefore, the taxation of natural persons' income was progressive in all European countries, the minimum quotas varying between 1% and 35%, and the maximum ones between 13% and 72%.

Fiscal reforms did not consist only in reducing the number of flat income taxes and in modifying their level, but also in broadening the tax band: incomes that in the past have been exempt from taxation were now taxable; some lump or non-lump fiscal facilities were reduced or annulled etc.

However, it cannot be stated that fiscal reforms from European countries have had the same result. As a general feature it can be observed that through all these reforms done in almost all countries, there has taken place a certain movement of fiscal duty from richer people to those less wealthy, from the pyramid's summit of incomes from natural persons to its basis[4].

Recent information published by Eurostat, the body assigned with the statistics of the EU, shows that in the last years the tendency of the tax rate at a Community level is decreasing, getting to a point of 39.3% of the GDP in 2008, the first year of economic crisis, as against to 39.7% in 2007. The taxation rate at an European level reached 40.6% in 2000, decreased to 38.9% in 2004 and then increased again until 2007, as the analysis of the table no. 1 can show.

In the Euro Zone, the taxation rate decreased to 39.7% in 2008, as against 40.5% in 2007. Beginning with the year 2000, the taxes from the Euro Zone followed a similar tendency with those calculated for the entire unit, though at a slightly superior level.

Contrary to the rest of the world, the Community taxes remain in general high with almost one third higher than the level registered in USA and Japan. Nonetheless, the fiscal burden varied significantly from one state to another, reaching values of less than 30% in 2008 in Romania (28%), Latvia (28.9%), Slovakia (29.1%) and Ireland (29.3%), up to almost 50% in Denmark (48.2%) and Sweden (47.1%). Between 2000 and 2008, the biggest tax and duty decreases in the GDP were registered in Slovakia (from 34.1% in 2000 to 29.1% in 2008), Sweden (from 51.8% to 47.1%) and Finland (from 47.2% to 43.1%), and the biggest increases were found in Cyprus (from 30, 0% to 39, 2%) and Malta (from 28, 2% to 34, 5%).

The allocation of taxation on its most important segments - tax on incomes, tax on consumption and tax on capital - have also known significant variations. The highest tax rates were registered in Italy, regarding the tax on labour, in Denmark, regarding the tax on consumption and in UK, regarding the tax on capital.

At an EU level, the most important source of fiscal income is the tax on labour incomes, reaching more than 40% of all fiscal incomes, followed by consumption taxes at almost a quarter and taxes on capital, little over one fifth. The average taxation rate on the labour force remained almost the same, from 34.2% in 2008 as against 34.3% in 2007, after a decrease from 35.8%, registered in 2000. Between the member states, the tax rate on the labour force varied in 2008 from 20.2% in Malta, 24.5% in Cyprus and 24.6% in Ireland, 42.8% in Italy, 42.6% in Belgium and 42.4% in Hungary.

The average tax rate on consumption in the EU, which increased between 2001 and 2007, dropped to 21.5% in 2008 as against 22.2% in 2007. In 2008, the rates of consumption tax were lower in Spain (14.1%), Greece (15.1%) and Italy (16.4%), and the highest ones were registered in Denmark (32.4%), Sweden (28.4%) and Luxembourg (27.1%).

In the EU, the average rate of taxes on capital for the member states

[4] I. Văcărel, Op. cit., pp. 230

reached 26.1% in 2008, as against 26.8% in 2007. The lowest rates of capital taxes were registered in Estonia (10.7%), Lithuania (12.4%) and Ireland (15.7%), while the highest ones were found in UK (45.9%), Denmark (43.1%) and France (38.8%).

Back to the problem of interventionism of the state in the economy by means of income taxes from persons incomes, we have to say that other is meet this type of interventions as well. Among these[5]:

- fiscal facilities which all contributors benefit from, regardless of their incomes, deductions from the gross income;
- facilities established according to the gross income or expenses made in time;
- fiscal facilities given depending on the contributor's marital status (single, divorced, widow, married), his number of children or other dependant relatives, or the fact if his wife has an income/does not have an income at all;
- facilities given as a reduction of the taxable income with the salaried employees' contributions to social security; those for age, impairing of any kind etc.

Referring to personal income tax, some economists[6] conclude that the developed countries which have already been through fiscal reforms have been especially preoccupied with the horizontal fiscal equity, with the progress attenuation taxation through diminishing the quotas and reducing the number of income trances.

In those countries where the population's income is high and it does not show too many differences from one person to another, the movement of the vertical fiscal equity on a secondary plan is not felt, probably, as an act of social injustice.

Another explanation would be the fact that in the developed countries a series of fiscal facilities is offered, which results in the fact that the taxable income falls under the income level of contributors. These are sums that are drawn from the taxable income for married people, children and other dependant persons, for people with disabilities etc., from fiscal credits and the exemption from tax of the first income trance. In those countries where the maximum flat tax is kept at a high level, the fiscal duty is relieved through facilities given by the state which force the income submitted to taxation to fall under the contributor's income.

In our country, where the number of people that live under the poverty threshold is quite large, and the difference between the minimum and maximum wage is big, *the vertical fiscal equity did not lose its importance.*

3. Report between the direct and indirect taxes

Speaking about long-term fiscal policy it is necessary to state a opinion regarding the fiscal system structure: will it be supported by direct taxes, indirect ones or will it keep a certain balance between these two types of taxes?

The European policy of taxation has two main components: direct taxation - which is the responsibility of the member states and the indirect taxation, which affects the free movement of goods and services. In this sense, the indirect taxes are especially kept in mind (VAT and excises). Direct taxes are subordinated to the purpose of keeping the free competition on the market unaffected, however, it is recommended to EU member states to make agreements on avoiding the international double taxation. Moreover, the Treaty of Maastricht imposes its members to limit the budgetary deficits at a level of 3% from their GDP; members who do not

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[5] Moşteanu T. and co. - Public finances. Course notations and exercises for the seminar, III edition, Publishing house Universitara, Bucharest, 2008, pp. 165

[6] I. Văcărel, Op. Cit., pp. 234

use the common European currency are advised to avoid substantial deficits.

In the EU, the responsibility of the fiscal policy is mainly taken by the member states, which can delegate some parts of these competences to the regional or local levels according to the constitutional or administrative structure of the public power[7].

As for us, from a theoretical point of view, we think that the solution of collecting direct taxes in a prevailing proportion is better, because these are more appropriate to the meaning of vertical fiscal equity than the indirect ones. Taxes on goods and services are proportional with the consumers' expenses, but regressive in relation with their incomes. The advantage resulting from the low level of expenses with the settlement and collecting of consumption taxes does not compensate the disadvantage caused by the fact that they burden especially the people with lower incomes, and the increase of the flat taxes results in skyrocketing prices.

However, from a practical point of view, *the disadvantage of applying the direct taxation is that this method becomes efficient only after a certain income per capita*. Under the conditions of a highly fiscal pressure and a low income per capita, this method has two disadvantages: on one hand, it affects directly the incomes made by this certain state's residents, diminishing the purchase force of its population and on the other hand, it does not ensure sufficient incomes to the state's budget. The table no. 2 presents the GDP levels/inhabitant from EU member states.

For 2010, the GDP per capita expressed in terms of purchasing power standard (PPS) varied from 43% to 283% from the average EU-27 in all member states. In countries like France, Spain and Italy, the GDP per capita was over 10% of the average EU-27. In Ireland, Holland, Austria, Sweden, Denmark, Germany, Finland and Belgium had a level of 15% and 35% above the average, while the highest level of GDP per capita was registered in Luxembourg. In Slovenia, Czech Republic, Malta, Portugal and Slovakia it reached a level of 10% and 30% below the average EU27. In Hungary, Estonia, Poland, Latvia and Lithuania it had a lower level of 30% and 50%, while in countries like Romania and Bulgaria it was up to 50% and 60% below the average EU27.

As the above analysis reveals, there is no evidence of a compact mass regarding the GDP/per capita at an EU level and as a conclusion, we cannot talk about a common solution concerning the proportion between the direct and indirect taxes. The report of the two times bigger GDP/per capita in Luxembourg and below the half average in Romania as against the European average determines the direct tax efficiency not to reach its maximum level.

4. Conclusions

The fiscal policy's objectives consist in various choices, explicit and implicit, of the public powers, which respond to the qualitative motivations, such as: efficacy, equity, solidarity etc. Their intersections with extra economic spheres, especially social ones, are strong.

These motivations are rendered in quantifiable objectives, such as: usage of labour force, price setting, production growth, balance on external payments, incomes redistribution, regional or branch development (industry, agriculture, transport, external trade etc).

As shown above, due to the fiscal reform done in developed countries, the vertical equity (differentiating the flat taxes according to the incomes' volume) was moved to a secondary level, giving priority to the horizontal one (which implies that the tax on 100 incomes should be the same, regardless of their source).

[7] M. Profiroiu, European policies, Publishing house Economica, Bucharest, 2003, pp. 123

As a conclusion, it can be said that when elaborating the tax strategy in Romania - direct and indirect ones - it is useful to know the experience of the developed countries. It would be quite dangerous, though, to copy the fiscal system of a certain country, its older or newer regulations, because there are no countries with economic, social and other identical conditions which could justify similar fiscal approaches. In order not to take hasty fiscal measures, it is necessary for these to be preceded by thorough empirical studies to check the behaviour of natural persons and legal entities in different circumstances caused by changing the tax legislation.

In our country *the vertical fiscal equity did not lose its importance.* From our point of view, Romania cannot be found in such a development stage where the market is the only regulator of the economic processes. Therefore, *taxes should be used as active instruments of economic management.*

Table no. 1 - Tax Revenues and Tax Rates Depending on the Type of Economic Activity (%)

	Tax revenues,% of GDP			Tax rate:								
				Labour			Consumption			Capital		
	2000	2007	2008	2000	2007	2008	2000	2007	2008	2000	2007	2008
EU27[8]	40.6	39.7	39.3	35.8	34.3	34.2	20.9	22.2	21.5	25.1	26.8	26.1
EA16[9]	41.2	40.4	39.7	34.5	34.1	34.4	20.5	21.4	20.8	26.5	28.2	27.2
Belgium	45.0	43.9	44.3	43.6	42.4	42.6	21.8	22.1	21.2	29.6	31.8	32.7
Bulgaria	32.5	34.2	33.3	38.7	29.9	27.6	19.7	26.6	26.4	--	16.9	--
Czech Republic	33.8	37.2	36.1	40.7	41.4	39.5	19.4	22.1	21.1	20.9	22.3	21.5
Denmark	49.4	49.0	48.2	41.0	36.5	36.4	33.4	33.8	32.4	36.0	47.0	43.1
Germany	41.9	39.4	39.3	40.7	38.6	39.2	18.9	19.8	19.8	28.4	24.5	23.1
Estonia	31.0	32.3	32.2	37.8	34.0	33.7	19.5	23.8	20.9	6.0	9.2	10.7
Ireland	31.6	31.4	29.3	28.5	25.7	24.6	25.7	25.6	22.9	--	18.6	15.7
Greece	34.6	32.4	32.6	34.5	35.9	37.0	16.5	15.5	15.1	19.9	--	--
Spain	33.9	37.1	33.1	28.7	31.4	30.5	15.7	15.9	14.1	29.8	43.4	32.8
France	44.1	43.2	42.8	42.0	41.4	41.4	20.9	19.5	19.1	38.3	39.8	38.8
Italy	41.8	43.1	42.8	42.2	42.6	42.8	17.9	17.2	16.4	29.5	35.3	35.3
Cyprus	30.0	40.9	39.2	21.5	24.0	24.5	12.7	21.0	20.6	23.7	40.4	36.4
Latvia	29.5	30.5	28.9	36.7	31.1	28.2	18.7	19.6	17.5	11.2	14.5	16.3
Lithuania	30.1	29.7	30.3	41.2	33.1	33.0	18.0	17.9	17.5	7.2	11.3	12.4
Luxembourg	39.1	35.7	35.6	29.9	31.0	31.5	23.0	27.0	27.1	--	--	--
Hungary	39.0	39.8	40.4	41.4	41.0	42.4	27.5	27.1	26.9	17.1	18.7	19.2
Malta	28.2	34.6	34.5	20.6	19.9	20.2	15.9	20.3	20.0	--	--	--
Netherlands	39.9	38.9	39.1	34.5	34.2	35.4	23.8	26.8	26.7	20.8	15.9	17.2
Austria	43.2	42.2	42.8	40.1	41.0	41.3	22.1	21.6	22.1	27.7	26.3	27.3
Poland	32.6	34.8	34.3	33.6	34.0	32.8	17.8	21.4	21.0	20.5	23.4	22.5
Portugal	34.3	36.8	36.7	27.0	29.6	29.6	18.9	20.1	19.1	33.6	35.0	38.6
Romania	30.2	29.0	28.0	33.5	30.2	29.5	17.0	18.0	17.7	--	--	--
Slovenia	37.5	37.8	37.3	37.7	35.9	35.7	23.5	23.8	23.9	15.7	23.6	21.6
Slovakia	34.1	29.3	29.1	36.3	31.0	33.5	21.7	20.2	18.4	22.9	17.3	16.7
Finland	47.2	43.0	43.1	44.1	41.3	41.3	28.5	26.5	26.0	36.1	26.4	28.1
Sweden	51.8	48.3	47.1	46.0	42.5	42.1	26.3	27.8	28.4	43.2	32.9	27.9
Iceland	36.7	36.5	37.3	25.3	26.0	26.1	18.9	18.0	17.6	44.7	42.9	45.9
United Kingdom	42.6	43.7	42.2	38.3	37.4	36.9	30.7	30.3	28.5	41.1	42.2	--
Norway	37.1	40.7	36.7	--	--	--	27.1	29.1	26.2	--	--	--

Source: Eurostat News Release, nr.95/2010, published on 28 June 2010

[8] The average in the European Union
[9] The average in the Euro Zone

Table no. 2 - GDP per capita in PPS in 2010 (UE27 = 100%)

Luxembourg	283	Cyprus	98
Netherlands	134	Greece	89
Denmark	125	Slovenia	87
Ireland	125	Malta	83
Austria	125	Portugal	81
Sweden	123	Czech Republic	80
Germany	119	Slovakia	74
Belgium	118	Estonia	65
Finland	116	Hungary	64
United Kingdom	113	Poland	62
Euro area (EA17)	108	Lithuania	58
France	107	Latvia	52
Spain	101	Romania	45
Italy	100	Bulgaria	43
EU27	**100**		

Source: Eurostat News Release no. 91/2011, published on June 21, 2011

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