GLOBALIZATION AND FISCAL PROBLEMS

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Abstract: Globalization is an ongoing phenomenon and once we are aware of its proportions, the social, political and economic actors need to manage coordinated steps. As a consequence global world has to pay more attention to fiscal actions.
Our paper aims to take stock of the fiscal problems caused by phenomena such as globalization, the internationalization of economic activities and economic integration in the European Union and increased risk of unsustainable growth of debt of European countries.
Our research begins with an analysis of the concept of globalization. Another issue considered is if the European Union where the euro pushed up public debt of the member countries. Finally we take into consideration the risks and opportunities of common fiscal policy response to phenomena such as economic crises and as Romania, where taxation is trying to place our country in a European directive.

JEL classification: G01, H30, H63

Key words: critical; globalization; tax competition; sovereign debt; financial and economic crisis; unsustainable debt

1. INTRODUCTION

Globalization is an ongoing phenomenon and once we are aware of its proportions, the social, political and economic actors need to manage coordinated steps. Political decisions affect the economic strategies which in turn affect social relationships and vice versa. In this way, the global world should pay attention to tax shares in its intention to create equal opportunities for participants in economic life.

Our paper aims to make an analysis of the influences caused by phenomena such as globalization, the internationalization of economic activities and economic integration in the European Union and influences of taxes and public spending to the behaviour of individuals and companies that exhibit high mobility in current conditions.

Then we analyze the concept of globalization, pointing out that this phenomenon changes involved in the economy. The analysis emphasizes the essential role that it has the internationalization of trade and economic integration in the propagation of global issues. Another issue considered is if the European Union, totally unique event in history because economic forces measured for the first time a monetary union. Globalization is often defined as a free movement of financial capital, with more and more obvious domination of multinational corporations on national economies[1], these phenomena by the power of public authorities to be significantly diminished so that room for maneuver in the field of fiscal policies is considerably reduced for private gain, limiting action only in areas where tax effects do not propagate at a regional scale.

Also as a result of globalization occurs the increasing public spending. We are seeing a return in force of the state in the economy through its budgetary policies, the spending huge funds to support their functioning markets, especially financial markets. If before the globalization of public funds were intended, according to Keynesian model, to large public works investment, creating jobs and supporting disadvantaged classes, globalization tends not to redistribute public funds from the rich to the poor, but in social strata. Large corporations should pay significant contributions to the state budget and other budget categories, and they are the most vulnerable to globalization and as such require support from public funds.

2. The Concept of Globalization

The process of globalization can be seen in many ways but most importantly we consider being that the world economy occurred in a continuous decline of the economic importance of national political boundaries and an increase, almost violent, relations and economic interdependence. Therefore the difference between internal and external transactions becomes insignificant.

Globalization was defined in many ways but none sufficiently precise to point out a very complex phenomenon. In this context, George Pîrvu defines economic globalization, as *"a very dynamic process of increasing interdependence of nation states as a result of enlargement and deepening of multilateral ties in more wide and varied spheres of economic, social, political and cultural implications so that the problems become more global than national"*[2] and Ioan Bari states that *"Globalization is the process by which geographical distance becomes less and less important factor in establishing and developing cross-border relations and socio-cultural economic policy. Networks of relationships and dependencies acquire a growing potential to become international and global."*[3]

In foreign literature we find also the same ideas. Thus, George Soros believes that *"globalization is the free movement of capital accompanied by increasing dominance of global markets and financial multinational corporations on national economic"*[4] and Joseph E. Stiglitz notes that *"economic globalization involves a more close cooperation to world countries through enhancing the movement of goods and services, capital and even labor"*[5].

Globalization has brought the focus of growing economies like the BRIC group (Brazil, Russia, India, and China). In its current form, BRIC reflects and reinforces the global change of power trio made up of U.S., European Union and Japan, although the Russian economy is in a more delicate than the other three countries economies. Following

[1] Nouriel Roubini, Stephen Mihm – Economia crizelor: curs-fulger despre viitorul finanțelor, Publica Publishing House, Bucharest, 2010, p. 500
[2] Gheorghe Pîrvu – Economie europeană, Sitech Publishing House, Craiova, 2007, p. 12-13
[3] Ioan Bari – Globalizare şi probleme globale, Economics Publishing House, Bucharest, 2001, p. 18
[4] George Soros - Despre Globalizare, Polirom Publishing House, Iaşi, 2002, p. 15
[5] Joseph E. Stiglitz – Mecanismele globalizării, Polirom Publishing House, Iaşi, 2008, p. 19

current trends, BRIC group contribution to global GDP could reach 60% by 2050[6]. But the trend may change. The largest economy in the BRIC group, that of China, whose import value has almost doubled since the beginning of the current crisis facing the threat of inflation. The idea that China's growing economy (over 9% per year) could help Europe emerge from recession by increasing imports from the European Union or European countries finance substantial reserves held by the country may not have a purpose.

In June 2011, Central Bank of China decided to raise bank reserve ratio by 0.5%, reaching 21.5% it just tempera appetite for Chinese banks to provide loans. In the context of inflation of over 5% in July 2011 China's central bank raised interest intervention by 0.25% to 6.56% level and interest on bank deposits at the Central Bank was increased throughout the 0.25% to 3.5%. The conclusion is obvious: the Chinese government wants sustainable economic growth.

But the problem of sovereign debt also affects China. Fitch rating agency announced in September 2011 that in the coming years China will downgrade debt expressed in national currency exposures because they have large Chinese banks. They have offered huge sums for two years as loan crisis hit countries.

Although economic growth in China is remarkable, it is not due to a liberalization of the business, as happened in the U.S. or Europe. Chinese administration is very present in the economy through taxation. Population is progressive taxation of wages, rates ranging from 5% to 45% maximum. Taxation of trade is done by applying rates varying between 5% and 35%, and taxation as interest or rent is made by applying a rate of 20%. Generally applies to a deduction of 10% of taxable matter. Profit taxation ignores the origin of capital, both domestic companies and foreign ones being taxed at a rate of 25% in some cases, for small, using a 20% share. Indirect taxes are similar to those in Europe. VAT, the rate of 17% applies to supplies of goods and certain services on imports. There is also a reduced rate of 13%, applicable on trade in certain products such as books and a share of 3% applies to businesses with a turnover below a certain threshold.

When private debt crisis spread worldwide in 2008, nowadays it is in full swing another, that of sovereign debt. Although the situation is critical in neither Europe, nor the rest of the world has a happier situation. From Chart 1 we can see that the level of 60% of GDP debt, considered as a reference within the European Union, is exceeded by most major economies of the world.

Liberalization of capital markets and international trade led to fierce competition between the states to monopolize the markets. This competition could not ignore tax issues. Most states today have huge debts have promoted fiscal policy to stimulate investment and encourage consumption. Japan is the obvious example. In late 2008, the tax burden relative to GDP was 28.1%, slightly up from 25.1% as it was in 1980, according to OECD statistics[7].

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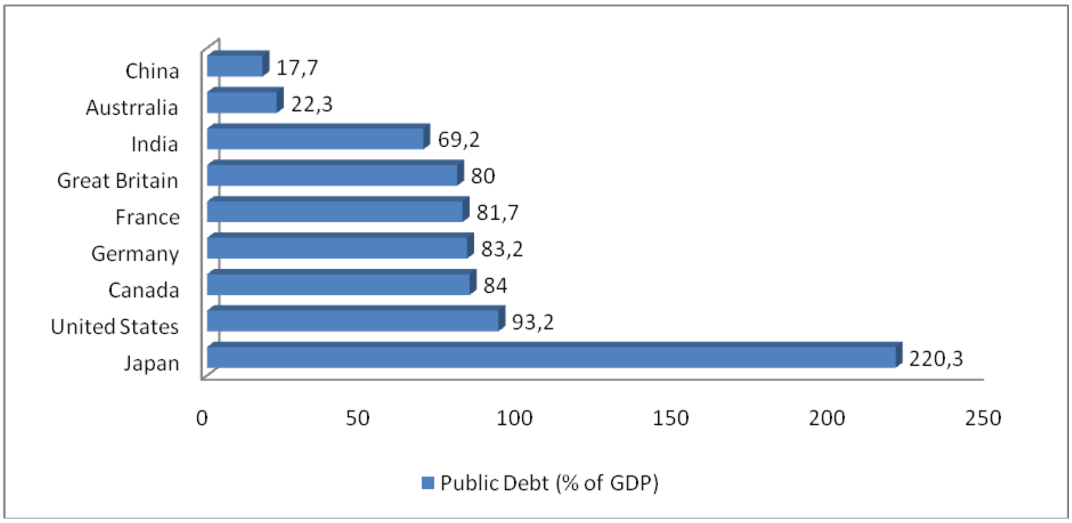
[6] Uri Dadush, Bennett Stancil - The World Order in 2050, Carnegie Endowment for International Peace, 2010, p. 8, available online at http://carnegieendowment.org /files/World_Order_in_2050.pdf

[7] OECD statistics are available online at http://www.oecd-ilibrary.org/taxation/total-tax-revenue_20758510-table2



Source: http://www.tradingeconomics.com/government-debt-to-gdp-list-by-country

Chart no.1 Comparison of public debt in 2010 in the largest economies in the world

3. Globalization and European Union

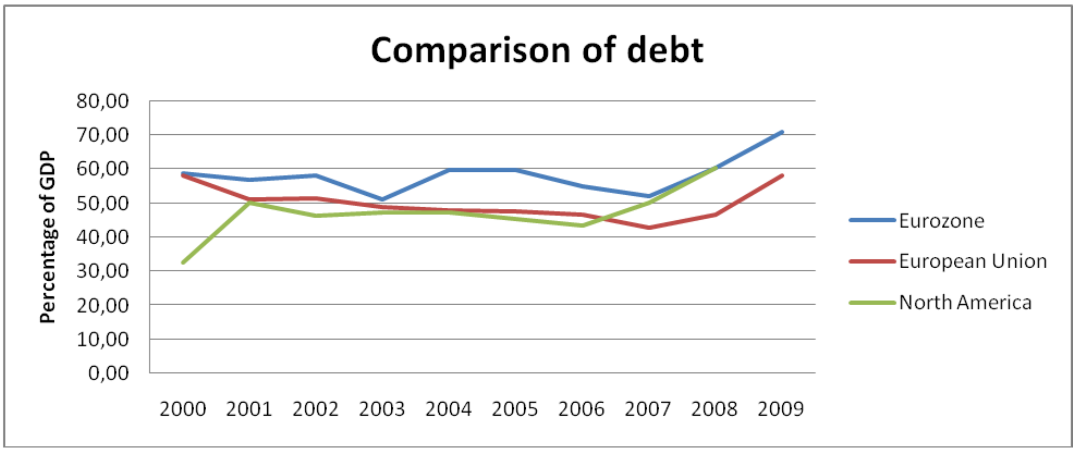
Globalization has led to an explosion of financial markets. Credit has become a commodity which began to be increasingly more abundant and cheaper. Cheaper credit, encouraged by cheap money policy pursued by the U.S. administration since 1990 and economic growth in Western Europe and developing opportunities for young democracies in Eastern, led to a change in optical government. It was easier and more convenient politically to a loan than to increase existing taxes or to establish new taxes. In September 1989, one year LIBOR rate reached 9 percentage points, and 10 years later fall to 6.05%, while in September 2011 to reach 0.83%. One year later EURIBOR followed a similar trend: in September 1999 reached a level of 3.28% in September 2009 and reach 1.30% for the level reached in September 2011 to be 2.09%, amid the rise of sovereign debt crisis. Although states do not borrow at LIBOR or EURIBOR rates as any government is tempted to accept a higher cost than a few percent VAT increase to an similar extent.

Globalization has brought about the opening of markets for goods and services. Making major European markets, which took place in 1993 in order to abolish all obstacles be they technical or fiscal and the result, was the abolition of internal borders. The consequence was the disappearance of customs duties between the twelve Member States of the Union at that time. Therefore each state lost 11 sources of income in proportion to the amount of trade conducted with other Member States.

With the opening of labour markets, economies of less developed countries were faced with another problem. Ability to search for a better paid job displacement caused a significant number of people in less developed countries to more developed countries, where wage income is higher. From a fiscal perspective this has caused two problems. The first is referred to the revenue budget as most of the departed in search of work abroad are qualified, able to create sources of income. Brain exodus and create problems on the expenditure side of the budget because those who left are generally young people, able to contribute to funds for social assistance and protection and those remaining, especially the elderly are beneficiaries of these funds.

Globalization has significantly affected the tax structure and fiscal policy management means a country. If we refer to taxation, governments are obliged to adhere to a strategy to reduce tax rates for taxable materials to stop mobility (hypothesis of efficiency) and to manage social programs ever wider to reduce the negative impact of globalization (hypotheses of compensation).[8]

Development of the European single market and single currency required to remove difficulties in the settlement of foreign currency. Euro was a double-edged weapon: on the one hand led to stimulating trade and on the other allowed states less competitive in the euro area financial markets borrow European currency fluctuations own and without the risk of interest provided by European Central Bank. In this context a comparative analysis of indebtedness among euro area countries and all European Union countries we point out that the euro has stimulated debt, as shown in Chart 2. Countries outside the euro area are less indebted because they had access to credit more difficult to exchange. In the past 10 years and countries like the U.S. or Canada were very close to the trend of debt in the EU.



Souce: Data published by the World Bank, available online at *http://data.worldbank.org/indicator/GC.DOD.TOTL.GD.ZS*

Chart no. 2 Comparison of debt in the Eurozone, the European Union and North America

For Greece in the European Union is relatively simple to understand. The economy of this country is based on tourism, an area known for high risk of tax evasion, which has imposed budgetary balance by external borrowing. Greece remained in the euro zone because of its history in the construction of the Union but to pay debts. With all the problems Greece has and must pay regardless of how other states to help Greece, the country will not exit the Monetary Union. Her exit from the euro area would have at least two consequences. First you will have to adopt another currency that would depreciate quickly considering the pressure on the Greek economy at this time. A devalued currency

[8] Paola Profeta – Public finance and political economics in tax design and reforms, Societa italiana di economia publica, Dipartimento di Economia Pubblica e Territoriale Università di Pavia, 2003, available online at http://www-3.unipv.it/websiep/wp/252.pdf and Bretschger, L., Hettich, F. - Globalization and International Tax Competition: Empirical Evidence Based on Effective Tax Rates, Journal of Economic Integration 20/2005, available online at http://www.rsf.uni-greifswald.de/bwl/pdf/2000/07_2000.pdf

would make it impossible to pay external debt and developed countries, which played the role of creditors; it would be the first to suffer. A new currency would be virtually unleashing inflation. Inflation can help to reduce the debt of a state denominated in its own currency but just in a short-term. Long-term inflation leads to increased bank interest and high interest investment reduces appetite and stops growth, leading to revenue increasingly lower budget.

The second consequence, more dangerous as the first, is that it would create a precedent. If Greece should be allowed to fail and may ask why has not suffered the same fate and Ireland. Such a precedent would be dangerous for the European countries because lenders would expect the same decision can be taken for Spain or Portugal. No better placed countries such as Italy does not have too safe in the future prospects. Moody's Agency[9] gave France even a period of three months to determine if the economic outlook will remain stable. France is currently rated by Moody's with AAA. This rating allows it to borrow under very favourable markets to finance budget deficits. Once the roller of euro detaching started in over-indebted economies it could lead to a financial crisis more serious than that started in 2008. Unlike most of crises from 2008, the next one there would be relatively small-scale participants as in the case of banks or financial institutions but much wider, involving national bankruptcies.

If capitalist theory relatively simple to restore balance through bankruptcy, the current global crisis has shown that bankruptcy is not a solution. The current crisis has exposed the engines of globalization: transnational companies become "too big to fall". But as companies appeared "too big to fall" as countries have appeared "too important to fall". If for Greece may result in a controlled bankruptcy, which is true of much larger economies in Europe such as Spain and Italy, which are increasingly less rated by credit rating agencies? Interdependence created by globalization increasingly brings into question the moral hazard problem. It is right that countries with problems to fall into debt to consume excessive or even to stimulate economic growth, without seeking appropriate fiscal policies to finance the national budget, but then to put the issue of non-payment of these debts, and thus obtain rescheduling or new loans because they are too important to go bankrupt? We think not. Pro-cyclical fiscal policies should definitively be abandoned.

4. Effects of Globalization on the Romanian Economy

Changes due to globalization, voluntarily or not, affect and Romania as felt in the race due to start late this process. Living in space state-controlled economy, Romania was among the last countries that benefited from the revolution of transport, telecommunications, labour productivity or information.

The main reason of globalization, foreign trade has been consistently one of the engines and the Romanian economy. Globalization has hit the Romanian economy and trade relations with other states, both positively representing our country's borders open to the opportunities offered by global trade, but also negatively, the Romanian economy is not sufficiently prepared to face phenomenon. The problem of high deficits (4.9% of GDP budget deficit and 13% of GDP current account deficit in 2008) led to a reduced scope to support this trend. External funding that fuelled economic growth in the period 2006-2008 was becoming more expensive and less, leading to lower lending to the real economy

[9] Moody's Corporation - Moody's issues annual credit report on France, available online at http://www.moodys.com/research/Moodys-issues-annual-credit-report-on-France--PR_228611

because with the reduction of financial resources available to global capital outflows occur, which acts towards depreciation, according to Cristian Socol and Radu Soviani[10].

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The growing deficit of labour, strong wage growth that have limited competition and rapid growth of household loans to households were other signs of overheating. They have increased the budget deficit to 4.9% of GDP in 2008 against 2.4% as the previous year. Government measures promoted in 2009 materialized in opportunistic policies have caused a budget deficit of 7.4% of GDP, ordered in 2010 to take measures to reduce wages by 25% and increase VAT by 5 percentage points.

In Romania, after the economy from a centralized to a market economy system, tax sought to be placed in a European sense. Since 1991 labour taxation was progressive in 13 lines composed, they are changing the number of installments until 2004 and from 1 January 2005 introduced tax on proportionate share of 16%. This form of tax generated course of action adverse effects of tax systems in other European countries that it is detrimental to poor social classes and it favours those with high incomes, has created a gap of budget revenues, especially since the tax is quite small, being among the lowest in the EU countries. For coverage gap budget revenue has been done to increase indirect taxes, excise and value added tax, and broadening the tax base in case of income taxes.

Globalization and said the word and in terms of profit taxation. In a bid to grow quickly Romania relied on the increased interest of foreign capital and therefore decided decrease from a maximum tax rate of 45% as agreed in the first years after the transition to market economy to 25% and then to 16 %. These decisions have led to lower tax burden in Romania for almost 30.2% in 2000 to about 27.8% in 2005. For 2010, the tax burden rose to 28.1% of GDP, according to Eurostat[11].

But a comparison of tax burden from Romania and other European Union member states would be incomplete if it did not consider other sources which contribute to balancing the budget: European funds. Romania has attracted about 4% of the funds made available to the European Union but in return promotes a heavy tax relative to income per capita. If we relate the share of European funds attracted to the state share of government revenue raised through the tax system, the ratio is about 1/7. This report does not tell us much about the state budget balance, which may remain weak in the case report higher than one, but we can point out the inefficiency of the Romanian economy measure. The Romanian state still has an outdated view of public finances. Fiscal policy should be oriented towards economic and social development. Developing competitive economy has increased public spending in areas like education, public health or national defense. Next, majority share in the funding sources of this development will have taxes whose role should be a stimulant for economic growth.

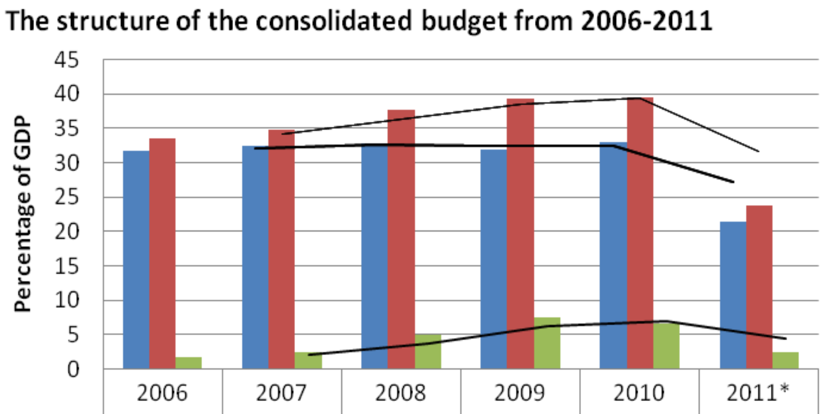
Our country can theoretically draw from the European Union $ 20 billion by 2015, the last year in which payments can be made by Romania for projects proposed for funding in 2007-2013. But practically it is very hard to believe that at the end of this period will

[10] Cristian Socol, Radu Soviani – Experiențe ale ajustărilor fiscale largi în UE. Cazul României, in Theoretical and Applied Economics, XVII (2010), No. 12(553), pp. 21-28.

[11] Eurostat, information available online at http://epp.eurostat.ec.europa.eu/portal/page/portal /statistics/search_database

exceed the rate of 30-40% of funds raised in total funds available. If we consider the risk reallocation amounts for the financing of national programs it appears that states are unable to use them see that there is possibility of gross domestic product outsourcing, redistributed through taxation, which help finance economic development programs of countries that have high rates of European funds. We therefore ask whether a policy is more suitable less burdensome tax, progressive tax, VAT or lower odds of funds for social security contributions, which would encourage consumption, would increase investment and stimulate appetite attracting European funds. Thus, control of the consolidated budget deficit could be done through a more judicious distribution of tax burden and public spending on programs with high efficiency.

The critical situation of Romania is due to an inability to increase the share in GDP revenues and reduce public spending, state Iulian Viorel Braşoveanu and Laura Obreja[12], our country with the lowest share of GDP of the EU, both revenues and expenditure budget and the authors conclude that in these circumstances is public debt to GDP will continue to grow in 2011, continuing growth in 2009-2010.



	2006	2007	2008	2009	2010	2011*
Budgetary revenues	31,8	32,5	32,8	32	33	21,4
Budgetary expenditures	33,5	34,9	37,8	39,4	39,5	23,8
Budget deficit	1,68	2,4	4,9	7,4	6,51	2,39

Note: data for 2011 include the period from January to August

Source: Ministry of Public Finance, available online at http://www.mfinante.ro/execbug.html?pagina=domenii

Chart no. 3 The structure of the general budget consolidated in the period 2006-2011

In the structure of the consolidated budget from 2008-2010, as we can see in Chart no. 3, a growing share of expenses on lower revenues. General government deficit of Romania increased significantly in 2008-2010 from 4.9% of GDP in 2008, 7.4% of GDP in 2009 to 6.51% in 2010. Among the causes that led to this basis are: decrease in industrial production, oversized expenses in carrying out investment programs, increase tax evasion,

[12] I. V. Braşoveanu, L. Obreja - Efecte ale crizei economice actuale asupra variabilelor fiscale în ţările Uniunii Europene, in Theoretical and Applied Economics, XVIII (2011), No. 2(555), pp. 127-138.

reducing revenues due to economic crisis, institutional factors such as legislative changes and abundance of red tape, lack of consensus political.

Conclusions

The globalization process is a continuous decline of the economic importance of national political boundaries and increasing economic interdependence. These relationships have led to the spread of private debt crisis and then to the sovereign debt. Although the situation is critical in Europe, the rest of the world has not a happier situation, because the 60% of GDP debt, considered as a reference within the European Union, is exceeded by most major economies of the world.

Globalization has significantly affected the tax structure, governments are required to adhere to a strategy of reducing tax rates to stop the mobility of taxable materials and manage large social programs to mitigate the negative impact of globalization. Development of the single European market and creating a single currency to overcome difficulties in the settlement resulted in stimulating trade and on the other hand allowed them less competitive states in the European area to borrow from European financial markets in their own currency.

The current crisis has exposed transnational companies become “too big to fall” and countries “too important to fall”. Interdependence created by globalization brings into question the moral hazard problem. If a country like Greece should be allowed to fail then it might be left and countries like Spain or Portugal. We think that it will not be the case. A recapitalization of the banking system and a stricter monitoring of countries' financial problems will solve this crisis.

We believe that in the case of Romania, solutions to problems related to the transfer of tax policy from an economic view of strict financial and budgetary choices by rationalizing transparency in public spending. This can be achieved through rigorous monitoring of costs and benefits or the benefits of each investment in part by increasing accountability and policy makers regarding priorities in the allocation of public funds.

Balancing the budget is difficult, especially in times of economic crisis, but we consider that more important than balance itself is how to restore this balance. View that income must be equal to the expenditure is exceeded. We believe that income should be left in possession of a greater tax burden and taxpayers by reducing the balance to be restored by re-spending. Our vision is directed to the taxpayer a choice of how to spend or to save income. At the same time political decision should be limited in terms of increased outgoings spend on unproductive, inefficient and oversized value of different investments.

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