GENERAL GOVERNMENT REVENUE IN CERTAIN EUROPEAN UNION COUNTRIES

CORINA ŞERBAN (BOICEANU), IOAN TALPOŞ *

ABSTRACT: *The paper presents a comparative analysis of the amount and the structure of general government revenue in eight countries of the European Union for 2000-2008. The analysis aims at emphasizing both the individual and the similar features of fiscal policies within European Union countries. On the grounds of this information, the paper wishes to identify new solutions for a faster integration of Romanian budgetary policies in the framework established by European treaties.*

KEY WORDS: *general government revenue; national tax structure; EU*

JEL CLASSIFICATION: *E62, H20*

In the analysis of budgetary policies of various countries, studying the structure of government revenues provides crucial information. The results of national fiscal policies, consisting in the size of the revenue collected by the central government consolidated budget, are another tool within reach of national governments to ensure a balanced budgetary policy in order to maintain the lowest budget deficits and public debt, therefore a decent level of national welfare.

The concept of national sovereignty is currently experiencing a new approach however, due to the integration of tax policies of the member countries of the European Union in the context of general policies and agreements of the European Union to achieve socio-economic prosperity and security in Europe. Although tax policy is vital for each country, its effects reaching beyond national borders easily influence the budgetary policies of neighbouring countries, members or non-members of the European Union.

That is why the issue of tax harmonization in the EU has arisen, an already accepted issue, even though partially, especially when it comes to indirect taxes

* *Lecturer, Ph.D. Student, "Tibiscus" University of Timişoara, Romania,* corinaboiceanu@gmail.com
Assoc. Prof., Ph.D., West University of Timişoara, Romania

(where, as widely known, the European customs tariff was generalized, intra-community custom duties were abolished, VAT and the main types of excise duties were harmonized); further solutions are needed when it comes to direct taxes, still under each country's national sovereignty.

Analyzing the ratio of budget revenue (consolidated revenue of governments) in the GDP of EU countries, we see that the EU wide average has fallen since 2000 from 45.8% (EU 15) to 44.5%, especially after 2004 when 10 new member countries joined, and the percentage dropped sharply to 44%. The year 2004 recorded the lowest level in all countries. Over the next two years the budget revenue increased by almost one percent of the community GDP (44.9% by 2007), and then in the context of the new world economic crisis, it began to drop again in 2008, which could be easily forecasted due to the financial problems which have affected all EU member countries regardless of their economic power.

In the Euro area the situation is better, government revenues holding a larger GDP share (from 46.3% in 2000) due to the careful monitoring of fiscal policies. A drop in the share of revenue was also present here by almost one point in 2008, mostly due to monetary policies of stabilizing the euro. In the context of the GDP dropping, the fall of government revenues had a higher rhythm in highly industrialized countries in Europe, due to disruption of businesses and bankruptcy of many pan-European enterprises.

Particular values of each country, and therefore European averages, were calculated based on tables drawn up by the European Institute of Statistics.[1] *We must bear in mind that they are compiled on the basis of quarterly data provided by national reports, as defined by the European System of National Accounts (ESA 95). Although the information provided should be consistent and comparable, there may be differences between countries in data processing, due to different approaches of national statistical systems. In recent years the data provided have become more homogeneous, with the introduction of ESA95 standards in all countries.*

In 2000-2008 the European Union countries have had different evolutions of government revenues. There are many reasons why government tax revenue varies from year to year as a percentage of GDP. It would take a more in-depth analysis than the one presented here in order to explain the causes of such variations in particular countries. However, in general, the main reasons are changes in economic activity (affecting levels of employment, sales of goods and services, etc.) and in tax legislation (affecting tax rates, thresholds, exemptions, etc.). It should be noted that, even when using accrual methods of recording, the effects of changes in legislation or economic activity tend to have a delayed impact on tax revenue.

Germany has a government revenue share of GDP above the European average, due to its high taxation. The German evolution of revenue contribution to GDP has followed a similar trend with the whole union, the average decreasing over the past eight years from 46.4% in 2000 to 43.8% in 2008, there was a curve with a minimum value in 2004 (43.3%) , followed by a period of much weaker growth. This was due to policies of fiscal relaxation initiated after 2001 in order to prevent migration of capital to countries with lower taxation. The past two years have been subject to the strong impact of the economic crisis.

Table 1. Share of total public revenue as a percentage of GDP

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU (27)	45,4	44,8	44,2	44,2	44,0	44,4	44,9	44,9	44,5
EU (25)	45,5	44,9	44,2	44,2	44,1	44,5	45,0		
EU (15)	45,8	45,1	44,5	44,5					
Euro Area	46,3	45,5	45,1	45,0	44,6	44,9	45,4	45,7	
Euro Area (16)	46,2	45,4	45,0	45,0	44,6	44,8	45,3	45,4	44,7
Euro Area (15)	46,2	45,4	45,0	45,0	44,6	44,8	45,4	45,5	44,8
Germany	46,4	44,7	44,4	44,5	43,3	43,5	43,8	44,0	43,8
Spain	38,1	38,0	38,4	38,2	38,5	39,4	40,5	41,0	36,6
France	50,2	50,0	49,5	49,2	49,6	50,4	50,4	49,6	49,3
Great Britain	40,4	40,7	39,1	38,8	39,6	40,8	41,6	41,4	42,3
Hungary	43,6	43,2	42,4	42,0	42,6	42,3	42,7	44,8	46,5
Poland	38,1	38,6	39,2	38,4	36,9	39,1	39,9	40,2	39,2
Slovenia	43,0	43,6	43,9	43,7	43,6	43,8	43,3	42,9	42,7
Romania	33,8	32,5	33,0	32,0	32,3	32,3	33,1	34,0	33,1
Max EU (27)	59,30	57,20	55,30	55,80	56,40	57,80	56,60	56,30	55,70
Min EU (27)	33,80	32,50	32,90	31,90	31,80	32,30	33,10	32,50	32,70
Std. Deviation (%)	16,16	16,22	15,51	15,64	15,50	15,44	14,47	14,10	14,83
Skewness	0,78	0,57	0,56	0,54	0,61	0,76	0,66	0,39	0,31
Kurtosis	-0,12	-0,46	-0,52	-0,39	-0,13	0,31	0,20	-0,08	-0,46

Source: adaptation from Government Finance Statistics, Summary tables

France has been throughout the whole period above the average of the European Union or the Euro area. It has followed the general trend as well, starting from a 50.2% share of GDP. Then government revenues formed a curve with a first minimum corresponding to the year 2003 when the lowest recorded value was 49.2% (well above the European average). Then the values started to increase, managing to exceed the baseline in 2005 and 2006 (50.4% of GDP), while during the last two years under research there was a drastic fall to the second minimum of 49.3% of GDP, also influenced by the existing economic crisis.

Great Britain has followed a reverse trend, as a curve oscillating around 40% of GDP. The low contribution of government revenues compared to the EU average was due to Britain's low volume of compulsory social security contributions to budget revenues, as this country has a more developed private social security system. Overall government revenues in GDP increased from 40.4% in 2000 to 42.3% in 2008, despite the existing economic recession.

Spain, whose government revenues are about 89% of the EU average, has also recorded an oscillating trend, increasing slightly from 38.1% in 2000 to a maximum of 41.0% in 2007, then suffering a dramatic drop by 36.6% of GDP in 2008, due to the strong economic recession that swept the country.

Among the new countries which joined the EU after 2004, **Hungary** seems to have had a satisfactory government revenue share of GDP from 46.3% in 2000 and followed a trend similar to the European average to which it is pretty close. The year 2003 recorded the lowest value (42% of GDP), then following a significant increase to

values exceeding the EU average (46.5% in 2008). For countries with emerging economies however, there are other causes of this high government revenue share of GDP. Here it is mainly about the economic development of former communist countries, which enabled an increase of government revenue on the grounds of a pretty high taxation, and Hungary came second in 2007 under the EU average, right after Germany. This growth was however accompanied by an even faster growth rate of budgetary expenditure.

Hungary's fiscal policy aimed at ensuring economic neutrality, promoting privatization and encouraging savings and investment. Hungary's tax burden is relatively high; we can say the highest among the former communist countries, being close to the EU15 average.

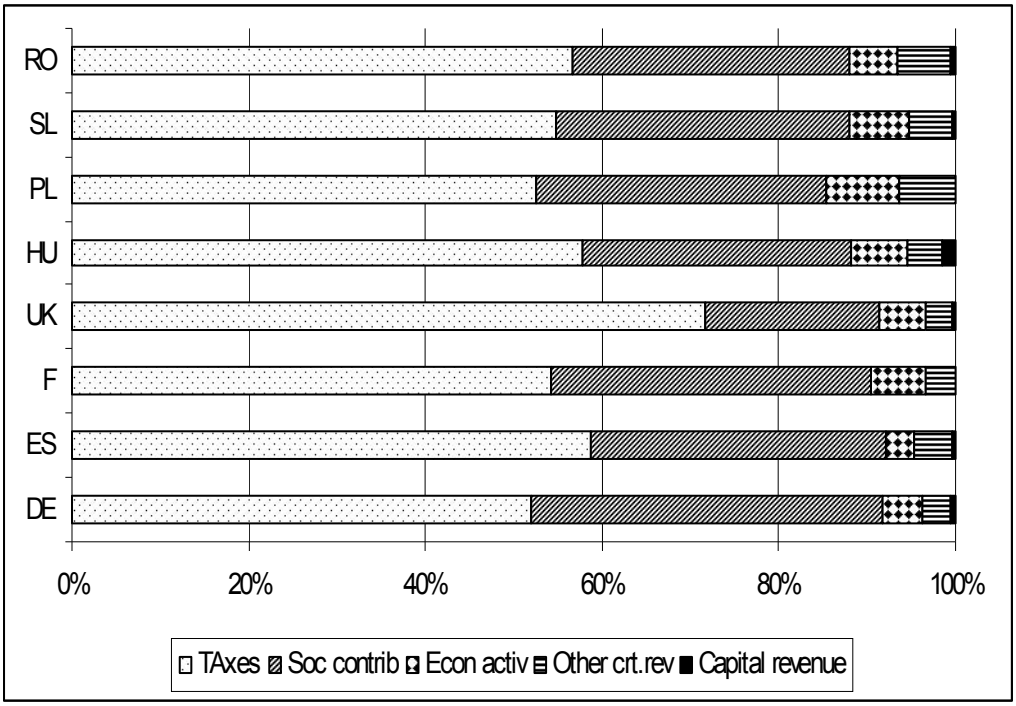
Slovenia has maintained a relatively constant level of government revenue contributions to GDP, around 43%, close to European averages. Despite being a small country, Slovenia has maintained economic and fiscal stability, constantly reducing the budget deficit close to balance. Among the latest countries to join the European Union, Slovenia was the first one who was able to meet the accession criteria to the European Economic and Monetary Union, joining the union in 2007.

Poland has a relatively low government revenue share of GDP, although more than Spain, already a member country of the Euro area. Starting from a level of 38.1% of GDP, government revenue in Poland has followed a relatively ascending trend to 40.2% of GDP in 2007, followed by a drop to 39.2% in 2008. This country's government revenue has also been subject to the significant influence of economic development. In 2002-2003 there was a dramatic slump in economic growth, accompanied by rising unemployment, leading to a drop of government revenue to 36.9% in 2004. Due to the reform policies implemented after the accession to the EU, Poland's economic situation began to improve, a fact proven by an increase of government revenue to a maximum of 40.2% in 2007.

The analysis of the average structure of government revenue and its major components (including mandatory social security contributions and revenue from government economic activities) during 2000-2008 in figure 1 reveals that: the largest share in total government revenue is held by *revenues from taxes and duties*, which exceed 50% of the total government revenue. Great Britain holds the first position, with a 71.68% share of revenues from taxes and dues in total government revenue, exceeding by far European averages (around 60%).

Spain has a share of taxes and dues close to the European average (58.64% of total revenue), followed by Hungary (57.83%) and Romania with 56.59%. Lower shares of revenues from taxes and dues are found in Poland (52.6%), where besides social security contributions, revenues from economic activities hold a significant share (8% of total revenue), as well as other current revenues (6% of total revenues).

Germany holds the lowest share of revenues from taxes and dues of all countries under study, 52.04% of total government revenue, not because of low taxation or a poor representation of such revenues within taxation structure (Germany being reputed as a high taxation country throughout the European Union), but because of the higher share of revenues from social security contributions.



Source: adaptation from Government finance statistics, Summary tables

Figure 1. Average structure of government revenue as a share of total revenue between 2000/2008

In what concerns *direct taxes*, their average in 2000-2008 varies between 18.58% in Poland and 39.64% in Great Britain, where they represent the most important source of government revenue. In economically developed countries indirect taxes hold shares around 25%, while in former communist countries their share is lower because of the economic instability they experienced in the period under study. Spain holds quite a significant share of indirect taxes in total government revenue (28%), larger than Germany's (24.5%) or France's (23%). During the years of economic growth, Hungary held a consistent share of indirect taxes in total government revenue, with an average of 22.1%, close to the one in highly developed countries. Unfortunately, Poland and Romania hold very low shares of indirect taxes in total government revenues (18%).

Revenues from social security contributions come second as importance within government revenues, reaching 30% averages throughout the entire European Union. Germany holds the first place when it comes to this type of revenues, as a result of high shares of mandatory social security contributions (39.78% of total revenues), which must provide the necessary resources in order to finance a social security system which is still very generous.

The second place is held by France (36.18% of total revenue), also having a very generous social security system. Spain and Slovenia hold shares of social security

contributions still above the average of the European Union (33.3% of total revenue). Poland comes next with 32.73%, Romania with 31.35%, and Hungary with a 30.37% share of total government revenue. An exception to the series is Great Britain where, as known, public social security contributions are the lowest in all the EU (only 19.66% - thus lowering the European average), because of the poor representation of public mandatory social securities within the country's taxation landscape, while Great Britain also has the lowest expenditure on social security, which makes it possible to achieve budgetary sustainability on the long run.

In former communist countries, having a poorly developed economy, social security contributions make up for the low share of other common government revenues, representing (given that employment is normal) an important addition to the other government revenues.

In these countries the revenues from social security contributions hold a share between 30-33% due to other reasons besides covering the actual expenditure on social security. Here social security contributions are compensating for the absence of other reliable and consistent budget revenues, they represent (as far as the employment of the population is a normal one) a secure and constant source of revenue in addition to income taxes. However, these countries have been subject to continuous battles between employers and governments to reduce social security contributions, which raise the cost of paid work, and thus the economic development of these emerging market economies was held back.

Many governments of these countries have had to raise again the rates of social security contributions after a period of reduction in order to complete the budget revenues which were beginning to drop once again. The phenomenon was accentuated during the process of restructuring former communist enterprises (in the mid 90s), when rising unemployment and reduced social security contributions revenue caused major imbalances to the government social security budgets. In order to cover the costs of social security there had to be made significant transfers from the central government budgets to social security budgets. Then, along with economic stabilization, the rates of mandatory social security were gradually lowered to stimulate employment and economic growth

The other types of government revenue hold low shares, varying in the countries under study around 6% for *revenues from government economic activities*, 4.4% for *other current revenues* and only 0.5% for *capital revenues.*

In terms of the convergence process of European policies, the statistical analysis of data for the entire EU, presented in the second part of the table, reveals that the harmonization phenomenon is also present in the field of fiscal policy. The results derive from the statistic calculation of time series representing the share of total government revenue in GDP for all 27 member countries of the EU. During the last eight years, the maximum share of total fiscal revenues in GDP has slightly decreased due to tax reduction policies in highly developed countries as a measure taken in order to stop the migration of capital to low tax countries. The maximum has thus decreased from 60% to 55.7% of GDP, also under the influence of the economic crisis of the last three years.

The minimum values have followed an oscillating trend due to the radical reform processes in former communist countries especially, which accessed the EU in the middle of the analyzed period. The standard deviation has been around 15 %, with a decrease towards the end of the period, which indicates a low degree of data dispersion around the average value, bringing yet another argument in favour of the harmonization process of financial policies in member states with a tendency towards an average share of tax revenues in GDP. This statement is also supported by the results describing frequency distribution. The value close to zero of the Skewness coefficient indicates a symmetrical distribution of values around the average, while its positive value indicates the fact that most values are below average, which could be explained by the large number of countries with small economies (and a lower share of tax revenues) within the EU. In terms of distribution, the Kurtosis coefficient, with mild negative values, indicates a flattened distribution, the values having a relatively normal dispersion.

In conclusion, all EU members apply fiscal policies under the European Fiscal Stability and Growth Pact regulation that will lead to the harmonisation of all fiscal policies and attaining a relative equal fiscal pressure.

Romania finds itself unfortunately at a 70% level of the European Union government revenue average, with a 33.8% share of GDP in 2000, the lowest of the entire series of countries under study. Although at the beginning of the period under study Romania had a relatively high taxation, this did not lead to increasing government revenue. The malfunction of an economy supporting bankrupt state enterprises, which not only wouldn't contribute to government revenue, but were having arrears that, in most cases, couldn't be cashed, the wide spreading of an underground economy also not contributing to government revenue, were the main causes leading to a low level of government revenue.

The economic and financial policy of the government in that period consisted in the closure or privatization of state enterprises, strengthening fiscal control and relaxing taxation in order to attract foreign investment in Romania. The budgetary effects of this policy merely began to appear in 2004, when there was a slight increase in the government revenue share of GDP (33%), reaching a peak in 2007 (34%), as a consequence of the strong economic development in 2006-2007. Recession emerged in our country as well, leading in 2008 to the lowering of the government revenue ratio to the value before 2000 (33.1%).

A prerequisite for ensuring the sustainability of public finance in Romania and converging with European economies is to increase the share of government revenue by approximately 10% of GDP, which implies a sustained economic growth and an improved tax revenue collection (reducing tax evasion). Although lowering the tax rate in Romania was meant to stimulate economic development and, according to the tax multiplier, GDP growth and automatically an increase in tax collections, the global economic crisis suddenly stopped the action of these mechanisms. A short term solution in order to increase government public revenue might be increasing the tax base or the rates (from July 2010 VAT increased from 19% to 24 %) of certain taxes, as has been done in other EU countries.

REFERENCES:

[1]. Lupi, A. (2009) *Tax revenue in the European Union*, EUROSTAT, Statistics in focus 43/2009

[2]. Şerban, C. (2010) *The evolution of social security revenue in the new European Union member countries*, Institute for Entrepreneurship Strategy International Conference "Problems and Ways for Improvement of Economic Mechanism of Entrepreneurship Activity" Zhovyi Vodi, Ucraina

[3]. EUROSTAT (2010) *Government Finance Statistics*, [Online], Available at: www/epp. eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics

[4]. EUROSTAT (2009) *Government finance statistics, Summary tables no. 1/2009***,** Statistical Yearbook (2009) [Online], Available at: www/epp.eurostat.ec.europa.eu/portal/page/ portal/government_finance_statistics