

Tax policy under the conditions of globalization

This paper analyzes globalization as a complex phenomenon, which encompasses a great variety of tendencies and trends in the economic, social and cultural spheres. The paper provides a brief overview of the different theoretical views about the opportunities and costs of the globalization. The author analyzes the tax policy as an important fiscal instrument in order to decrease the negative influence of the globalization and gives recommendations for the improvement of the tax application.

Keywords: globalization, tax system, taxation, fiscal policy.

Straipsnyje globalizacija analizuojama kaip sudėtingas fenomenas, apimantis didelę tendencijų bei pokyčių ekonominėje, socialinėje bei kultūrinėje srityse įvairovę. Trumpai apžvelgiami skirtingi požiūriai į globalizacijos teikiamas galimybes bei jos kainą. Mokesčių politika analizuojama kaip svarbus fiskalinis instrumentas, kuriuo siekiama sumažinti neigiamą globalizacijos poveikį bei pateikiamos mokesčių taikymo rekomendacijos.

Raktiniai žodžiai: globalizacija, mokesčių sistema, apmokestinimas, fiskalinė politika.

JEL Classifications: F3/H2/H3/E62.

Introduction

The globalization process in the world economy is characterized by the establishment of international enterprises, an intensive flow of capital and an active movement of labour force. Under such circumstances the entrepreneurs must find new ways and solutions to the business management and capital investments. The rapid development of international business makes a substantial influence on the national economies, both in a positive and negative way. It is especially important to emphasize the negative influence of globalization on the state income because the capital flows to the regions with lower taxes and it is more convenient for the international enterprises

to register in offshore countries decreasing the tax payments to their state budget.

And so the governments must think about the corrections which should be made in the implemented economic and financial policy in order to reduce the negative influence of the globalization process on the state budget as well as the enterprises which operate in the domestic market.

One of the most important instruments of the financial policy of the governments is taxes, the application of which makes a great influence on the decisions in business, referring to the way of business, the business forms, capital investments and others.

The object of the research is to evaluate the tax policy as an important instrument in the economical development.

The aim of the article is to characterize the positive and negative influence of the globalization on the entrepreneurship and the state budget as well as to analyze the tax policy in order to decrease the negative influence of the globalization and to give recommendations for the increase of the effectiveness of the tax application.

The tasks of the article are as follows:

- To analyse theoretical points of view about globalization and its influence on the economical development.
- To reveal the problems, with which countries meet introducing tax harmonization in European Union.
- To introduce the problems of the tax policy in Latvia and give recommendations for the improvement of the tax application.

The research methods, which are used in the article, include the issue analysis and empirical analysis.

Challenges of globalization

Globalisation is a term which has been used for the description and explanation of many worldwide phenomena. It has been given positive connotations by those who advocate greater economic integration across national borders, while it has been fiercely criticized by those who perceive it as a threat to social cohesion and as the advancement of unfettered capitalism, which undermines the Welfare State.

Globalization is a complex phenomenon, which encompasses a great variety of tendencies and trends in the economic, social and cultural spheres. It has a multi-dimensional character and thus does not lead itself to a unique definition. For the purpose of simplicity, it may be described as increasing and intensified movement of goods, services, capital, ideas, information

and people between countries, as a result of which it produces cross-border integration of a number of economic, social and cultural activities. It creates both opportunities and costs and for this reason it should neither be demonized nor sanctified, nor should it be used as a scapegoat for the major problems which are affecting the world today.

Globalization is characterized as the biggest event in the 20th century which has broken the economic barriers among nations and has forced the firms to develop a global strategy.

According to G. Bertucci and A. Alberti (2001) there are four main driving forces behind increased interdependence:

1. trade and investment liberalization;
2. technological innovation and the reduction of communication costs;
3. entrepreneurship;
4. global social networks.

Although many believe that technological innovation and entrepreneurship are the main forces behind globalization, these factors alone cannot explain the process of enhanced economic integration. National governments have played a pivotal role in allowing greater interdependence and economic integration of specific activities through the elaboration and adoption of market-oriented policies and regulations, on both the international and local levels. Increased global integration in a number of economic areas began to intensify in the 1980s when many governments supported economic liberalization. The latter has included "financial sector deregulation, the removal of controls over foreign exchange and enhanced freedom of trade. Financial deregulation has resulted in the progressive elimination of capital controls, the removal of controls over interest rates, and lifting of traditional barriers to entry

into banking and other financial services” (Cable, 1995).

State efforts to uphold free trade and to encourage the reduction of trade barriers have been reflected in the eight successive negotiating rounds of the former General Agreement on Trade and Tariffs (GATT), which culminated in 1995 with the establishment of a multilateral trading system – the World Trade Organization (WTO). The latter has not only led to the reduction of barriers of trade in goods, but has also proceeded to liberalize services and capital flows. The WTO has as well focused more closely on an ever-growing range of policy measures affecting the terms and conditions of market access, such as standards and regulations, subsidy practices, and intellectual property rights (WTO, Annual Report, 1998).

Thus, contrary to what is often claimed, economic globalization is not a blind force. It is still individual governments that set the policies and rules of the globalized economy. Economic globalization is, in other words, the result of policy decisions made by individual countries that allow global market forces to operate. It is of a great importance to underscore the political source of economic globalization in order to avoid interpreting this phenomenon as a deterministic force about which little can be done.

The real issue is which countries set the rules, whom do they favor and how can also the least powerful state influence policy-making in the international arena, and do they do it in ways that will benefit them. Some countries do not have as much leverage as others in setting the international economic and political agenda due to significant power imbalances among nations that are reflected in international institutions. As a consequence, the present form of

globalization is largely shaped by the rules advanced by one part of the world – namely, the most influential – and these rules do not necessarily favour developing countries and countries in transition.

In one of the interviews the sociologist *I. Wallerstein (2011)* has expressed an interesting opinion about globalization: “Globalization is quite a rethoric notion. In reality globalization is not anything new it is a part of a cyclical phenomenon which has been going on already for 500 years. There have been times when the world was more open, the production factors and the capital flow could move more freely. In the same way there have been more closed times, some people would call them as the time of protectionism. The notion “globalization” reflects this free movement but at the same time it is also rhetoric. It was said to the people – you must open the boarders, there is no alternative. It is the enforcement of one’s own volition.

Globalization is over. Neo-liberalism is also over. After five years you will not even remember the meaning of this word. At present we are moving in the direction of the era of strong protectionism. In this era all countries without exception will be involved in the economic processes. Even now in the near future we will have nationalized almost all banks in the world. Such a situation is definitely not the situation which is called globalization.”

So, we can make the conclusion that these processes are differently evaluated. On the one hand, it is declared that the globalization improves the living standard of many people in the whole world. At the same time there is a widespread antiglobalization movement, the supporters of which point out that the globalization is a bigger gain of the developed countries at the expense of underdeveloped countries.

This shows that there are a lot of questions and problems for the discussion and real solutions.

OECD countries have made recommendations for the reduction of the negative influence of globalization pointing at the necessity of the governments to take the following measures:

- to adjust the legislation about the control mechanism of the foreign companies;
- to adjust the legislation about the non-resident capital;
- to prevent the double imposition of the tax on the capital and to improve the international tax convention model;
- to ensure the international information exchange;
- to reconcile the legislation among countries about the exceptional situations;
- to revise the laws on banks in order to control the movement of funds;
- to ensure an effective review of claims;
- to reconcile the list of tax paradise among countries;
- to unify the tax administration, etc.

As we can see, the recommendations are closely related with the economic and financial legislation which should be coordinated among countries. With good reason it is pointed at the necessity of an effective exchange of information among countries, and in several aspects the questions of tax policy and administration have been raised.

The author thinks that the proposals and ideas expressed about the activities of governments under globalization must be considered differently according to the economic situation in the country. This especially applies to the less developed countries. The governments of these countries must primarily take into account the defence of their economy and inhabitants.

It would be acceptable to put the following questions first:

- what structural reforms must be in the country in order to gain maximal benefit from the globalization;
- how much it costs and how to divide the costs;
- how to protect the weakest sectors and less protected groups of the society from a negative influence;
- how to ensure the sovereignty to the governments in such a regulation of income and expenses which is the most appropriate to the needs and interests of a particular country, etc.

The aim of the research is not the analysis of all problems but the aim is to deal with the interrelation of taxes and globalization.

Influence of globalization on tax policy and the tax harmonization in the European Union

When appropriately using, the taxes are one of those financial instruments which can stimulate or hinder the globalization processes. However, there is an opposite influence – the globalization processes make the governments change the tax policy.

When the economic integration process began, the tax harmonization conception was formed in the European Union, too. Before the establishment of the European Economic Community in 1957 the legislation of the tax harmonization on the international level was not urgent. At present for the purpose of the European common market the customs barriers are completely removed and quantitative restrictions to import goods are abolished as well as other measures have been taken. However, it has been pointed out that for a successful

implementation of the common market idea it is necessary to reduce all barriers including in the area of taxes. It should be noted that the supporters and developers of the globalization process also consider that taxes are an essentially obstructive element which hinders the development of the process.

The author agrees with K. Ketners and S. Titova (2009), that the ensurance of the functioning of the internal market of the European Union and the elimination of tax barriers imply the implementation of two objectives: 1) the abolishment of the tax discrimination between residents and non-residents of the member-states; 2) the prevention of essential differences in tax legislation. The necessity of equal conditions of the competition is connected with several requirements which have become more urgent:

1. coordination of the tax policy among states;
2. approximation of the level of taxation rates;
3. approximation of the methods for the tax base calculation;
4. approximation of the tax relief.

So the harmonization of the tax system is a mutual reconciliation process of individual countries which involves the tax unification, interrelationship and the tax system and policy coordination if the countries are in different international groups.

Judging from the theoretical point of view about the necessity of harmonization of taxes caused by the globalization the author agrees with this idea but at the same time points out that in practice this question is very complicated and for particular countries it is unacceptable and unfavourable. For this reason the tax harmonization in the European Union takes place very

slowly and some questions have even come to a halt. Why is it so?

Analyzing the situation the author has set out the following main arguments:

1. As a result of building up different principles and goals of the taxation system in each country during many years there are big differences in taxation systems in the world and the EU. They manifest themselves in different forms: for example, there is not a unified practice whether the dominant must be direct or indirect taxes; there is not a common point of view whether it should be progressive or proportional taxation system; the difference can also be seen in the opinion whether the taxes must stimulate consumption or saving; there are a lot of different viewpoints about the employment taxes and the excise taxed goods, etc. It is interesting to point out that all countries have the same aim – the development of economy and the improvement of the living standard of the population, but the ways to achieve this aim are very different. The above mentioned differences can be substantiated by the differences in the level of the development of countries which means that in each period of development the governments have different economic and social goals. As we know, the European society speaks about the two-speed Europe which shows tremendous economic differences among member states. The proof of the fact is that the countries have different interests in their taxation systems. The author agrees with the opinion that in the European Union it is too early to speak about some of the harmonization questions.

The development of the economic science also plays an important role: it is theory and practice that determines a dominant opinion and viewpoint in a particular country.

In general, of course, each country takes into account the well-known A. Smith principles about a fair tax levy but it should be noted that fairness may be interpreted differently and the ways to provide it are different.

2. Up to the idea of the foundation of European Union (Stuttgart, 1983) there were no requirements for a unified fiscal policy. The member states of the Community formed their budgets and tax systems more autonomously and independently. Besides, the number of member states was considerably more less. The logical result is that at present in the European Union there is a big tax competition which can be seen not only in the difference of the tax burden (% from GDP) but there is also a difference of the tax burden in employment costs as well as referring to all tax elements: tax-exempt minimum, tax base, rates, relief. We cannot compare, for example, the tax systems in Sweden and Denmark with the tax systems in Bulgaria, Latvia, etc. This means that each country for tens of years has stated its tax payers, tax base and its calculation methods according to its socio economic interests as well as has decided on tax rates and relief. The competition among countries is also in tax administration (organization, costs, methods), the number of taxes, tax law on the level of the state and local authorities, auditing and its methods.

On the one hand, these differences are absolutely logical but on the other hand, of course, they influence the international capital flow, the workforce movement, etc. as a result of which there are countries which gain and the countries which lose in these processes. In order to maintain their interests the governments are forced to implement tax reforms which are not favourable to another country. The author considers that a favourable tax harmonization for all

countries is not possible. A less painful tax harmonization is possible only in the case when the countries have more or less the same level of development but there is a long way to go to reach this point. Therefore, the procedure should be adopted that a unanimous support of all member states is needed for the common reforms in the European Union.

3. The globalization processes are obstructed by a significant increase of the number of cases of double tax levy. The Conventions on double tax levy and the elimination of tax evasion have already long been concluded among the countries, the cooperation of which has already been stable for many years and is active enough. A lot of countries have concluded a lot of tax Conventions. But under the conditions of globalization it is not enough. The countries have obtained a lot of partners of cooperation in business from different regions of the world which was not typical before. The workforce also has become very mobile. The people conclude job contracts with employers in other countries and participate in different international projects, they do activities in foreign real estate markets, etc. which means that there is a risk of double tax levy. The elaboration and concluding the Convention is a complicated procedure which requires hard work and time. According to the world practice, from 2,5 to 3 years are necessary from the moment when the governments have agreed to conclude the Convention to the moment of its coming into effect. If the Convention is not concluded between the countries, there is not an effective exchange of information and different tax administration problems occur.

4. A characteristic feature of globalization is that the amount of taxes paid to the national budgets by the big tax payers

decrease because the international businesses are most often registered as offshore companies because of the tax optimization and in order to evade the differences in tax systems (competition). Different investigations show that globalization is "the best time for the tax paradise". Unfortunately, for this reason there are increasing possibilities of the tax evasion. It is mostly connected with the liberalization of the financial market and the modernization of banking transactions and financial payments because it is more difficult to follow the movement of capital. In order to ensure the budget revenues the governments are forced to increase the tax burden for the companies who operate in the domestic market which, of course, is not fair.

The above mentioned problems and other questions have already drawn the attention of economists and politicians for a long time. They are also under discussion in international organizations. The situation becomes complicated due to the world economic and financial crisis which is particular painful for some countries. It is quite natural that the national interests in the tax policy is of a primary concern: a balanced budget, the improvement of the living standard of the people and setting up a fair taxation system. The questions of the global harmonization of taxes remain in the background or even undesirable.

In one of the reports of UN it is said: "Countries must reform their tax systems by broadening their tax base; reducing tax-induced distortions; and adopting tax expenditure approaches which minimize the prospects for future fiscal deficits and are consistent with administrative capacities. In terms of tax policy, ideally, countries should aim at setting up an efficient and fair tax system which should raise essential revenue without excessive government borrowing,

and should do so without discouraging economic activities or deviating radically from tax systems in other countries. Tax reforms should aim at simplicity, equity and comprehensiveness" (United Nations Report of the Secretary-General, 2002). A lot of researchers pay a great attention to the questions of tax administration.

An efficient and effective tax administration is a basic pre-requisite for a tax system to fulfil its revenue producing potential. Even the best-designed system is only as good as the administration that implements it. Therefore, governments that decide to undertake fiscal reforms should also take into account the concomitant tax administration reform. The organizational structure of tax administration should be such as to enable the tax administration to achieve the highest possible degree of voluntary taxpayer compliance, and to administer the tax laws efficiently, effectively and fairly, with the highest degree of integrity. The strategies for tax administration reform are not in doubt:

a) simplification (for instance, the number of tax brackets in the income tax should be reduced and exemptions and deductions as far as possible eliminated);

b) need for a clear strategy of reform rather than *ad hoc* measures;

c) a high level of commitment to reform, particularly at the highest levels, but also embracing all concerned (the way a tax system is viewed depends on perception of the extent of evasion, fairness, complexity, arbitrariness, and the burden of administration of taxpayers);

d) technical competence on the part of tax administrators and staff of the entire tax system.

The author can agree with the above mentioned theoretical conclusions if only they could be harmonized with national

interests in a particular economic situation. Tax policy is a very effective instrument in order to facilitate the political tasks of the European Union. However, we must take into account that tax policy is a key element of the independency of member states. Meanwhile, a pressure is felt from the European Union to harmonize taxes. For example, there is an opinion that tax sovereignty is very important but there is one problem which is more important, namely, competitiveness – the competitiveness of European enterprises, the European workforce and the competitiveness of the whole European Union. Therefore, all member states must cooperate in particular spheres of taxes because there are the spheres in which the countries have the possibility to implement their own tax policy based on local conditions. For example, one can try different forms of cooperation – from harmonization till coordination.

As to the indirect taxes, the European position is the harmonization of legislation. Thus, the function of the internal market continuous to improve.

Up to now the harmonization of direct taxes has been implemented in some

Because now the enterprises in the EU have to deal with 27 different tax systems that cause problems. The double imposition of taxes, high costs in the case of agreements and other costs of taxes become a burden to business. The businesses who operate outside their countries must spend more because of taxes.

The corporate tax system in the EU must become more transparent and more effective. EU considers that the member states together will be able to prevent discrimination and other problems. The coordination and cooperation among the member states is needed in order to eliminate the tax evasion and to exclude cheating, in such a way defending budget revenues (L. Kovāčs, 2011).

Tax policy in Latvia: financial crisis and globalization

The tax policy in Latvia during the past years has been subject to the crisis management. The government faced serious problems in the state financial sector. The situation is characterized by the following data:

Table 1

The main revenues from taxes in the Latvia state consolidated general budget in 2004–2010, million LVL

Type of taxes	2004	2005	2006	2007	2008	2009	2010
Personal income tax	435.5	509.1	657.2	888.0	1029.1	729.4	778.8
Real estate tax	56.8	61.6	66.4	74.2	70.7	73.1	89.7
Value added tax	486.7	677.1	930.5	1202.9	1117.2	798.4	825.2
Excise duties	236.9	314.0	366.2	448.1	540.9	504.1	458.1

Source: Ministry of Finance of Latvia, 2011.

specific areas such as the imposition of tax on savings and dividends as well as the opinion has been expressed about the harmonization of the tax base of business income tax. There are still possibilities to facilitate the competition among enterprises which operate in different countries.

As we can see, until 2007 there was a stable increase of the tax income after which there was a dramatic decrease, especially in 2009. The author considers that in this period the tax policy of the government was a chaotic "patching the holes" because trying to avoid the decrease of expenses (they

did not manage to do that) the government increased taxes but under the conditions of crisis it cannot be justified. At the same time it must be noted that during the economic boom the government did not implement the tax reforms but it was necessary to do that in order to avoid the breaking of the real estate market bubble. We can conclude that in reality a procyclical tax policy was being implemented that made the crisis bigger.

According to the estimation of the Ministry of Finance the economy in the year 2010 has recovered better than it was predicted before. The report shows that the income to the consolidated general budget in 2010 was a little lower in comparison with 2009 but the stabilization of the economic situation and a more rapid reduction of the expenses from the consolidated government budget stimulated the increase of the fiscal indicators. The financial deficit of the

consolidated government budget in 2010 was 802,7 mil. lats which is 95,3 mil lats less in comparison with the year 2009. As to the cash flow, the financial deficit made up 6,4% from GDP (Ministry of Finance of the Republic of Latvia, 2011). From the beginning of the previous year the income slightly decreased each month but in September the economic situation improved and the increase of the tax income ensured the increase of the revenues which totally in 2010 was slightly less than in 2009. But the decrease of the consolidated budget expenses in 2010 in comparison with 2009 was due to the decrease of the expenses from the state budget and the budget of local governments. At the same time the government points out that the decrease of expenses was negatively influenced by the increase of the expenses from the social insurance budget.

Table 2

Revenues and expenditure of the government consolidated budget

	Execution in 2009 (mil. lats)	Execution in 2010 (mil. lats)	Changes in 2010/2009 (%)
<i>Government consolidated general budget</i>			
Revenues	4728.4	4607.0	-2.6
Expenditures	5626.3	5409.7	-3.8
Financial balance	-897.9	-802.7	
<i>Government consolidated budget</i>			
Revenues	3916.5	3790.0	-3.2
Expenditures	4759.9	4663.4	-2.0
Financial balance	-843.4	-873.4	
<i>Government basic budget</i>			
Revenues	2671.6	2622.8	-1.8
Expenditures	3312.7	3198.8	-3.4
Financial balance	-641.1	-576.0	
<i>Government special purpose budget</i>			
Revenues	1248.5	1178.1	-5.6
Expenditures	1461.5	1513.9	3.6
Financial balance	-213.0	-335.8	
<i>Local consolidated budget</i>			
Revenues	1334.3	1320.3	-1.0
Expenditures	1394.9	1268.3	-9.1
Financial balance	-60.6	52.0	

Source: Ministry of Finance of Latvia, 2011.

The figures in the table 2 show that in 2010 the financial situation was still very difficult and the special purpose budget is the only one where the expenses in the above mentioned years have increased. There is a different public opinion on this situation. All kinds of thoughts have been expressed about a quick collapse of the social budget and about the reduction of pensions in proportion to the reduction of expenses in other areas as well as a lot of other opinions in connection with the reforms of financing the social expenses.

Forming the state budget for the year 2011 the government tried to take into account the requirements and proposals of the international creditors and, consequently, it meant further consolidation of the state budget for about 300 mil lats.

application. The excise duties on particular oil products and alcoholic drinks have been increased and the amendments to the law on VAT tax have been made which totally increases the payments of this tax. Besides, we must especially emphasise the fact that the rate of the compulsory state social insurance contributions for the employees has been increased to 35,09 % which is done for the improvement of the situation in the social budget. At the same time the rate of personal income tax has been reduced by one point of a per cent and at present it is 25 %. So, the taxation has undergone serious reforms.

Analyzing the tax income of the previous year the author makes the conclusion that the changes, which have been made, are not quite substantiated.

Table 3

Total tax revenues

	Execution in 2009 (mil. lats)	Execution in 2010 (mil. lats)	% from planned in 2010	Changes in 2010/2009 (%)
Total	3678.6	3467.1	105.5	-5.8
State social insurance contributions	1330.3	1157.5	98.7	-13.0
VAT	798.4	825.2	119.5	3.4
Personal income tax	729.4	778.8	94.7	6.8
Excise duties	504.1	458.1	95.0	-9.1
Corporate income tax	197.2	112.2	145.7	-43.1
Real estate tax	73.1	89.7	-	22.8
Other taxes	46.1	45.5	110.2	-1.3

Source: Ministry of Finance of Latvia, 2011.

After heated debates the government made a decision about the consolidation methods and, starting from 1 January, 2011 several amendments to the laws on finance came into effect which caused a diverse response of the public. The amendments to the law on real estate tax have been made stipulating a higher tax rate on housing and retaining the progressiveness, already established in the law as well as specifying the tax

Analyzing the execution of the tax collection plan of the year 2010 we can make the conclusion that the plan of both employment taxes, i.e. personal income tax and social contributions, has not been executed and this is the proof that the problem is in the area of employment where we can see several influencing factors: unemployment, illegal employment, wages in the envelope, low wages, etc. In this connection we must

say that the reduction of the personal income tax to 25% from 1 January, 2011 is a positive decision because according to the author the increase from 23 % to 26 % in 2010 was not economically substantiated and did not justify itself. Nevertheless, there is some doubt about the increase of the social contributions from 9% to 11% in 2011 because the plan of the year 2010 was not executed due to the above mentioned factors. As we know, the social contributions are calculated from a more extended base rate than the income tax and, therefore, the tax increase makes up a bigger tax burden which can provoke the increase of shadow economy. In general, it is in contradiction to the supposition that the tax burden must be gradually shifted from the employment to the consumption. But, as it has been mentioned above, it is evident that the increase of social contributions is an attempt to retain the social budget.

There is a similar situation with the excise tax which has also been increased from 1 January. Most of entrepreneurs and analysts consider that the increase of smuggling is inevitable and the expected increase of revenues in the budget will not be in line with predictions.

The state socio economic development is made more difficult because already in February the government was to consolidate the accepted budget by 50 million lats which created a new wave of economic and social tension. The author considers that it is completely unacceptable that already at the beginning of the year the amendments to the budget are made, which were earlier predicted, because the international creditors have already previously had objections to the consolidation measures. It was clear that additional measures would have to be taken and, therefore, they had to be included when planning the budget for the

year 2011. The author considers that it has been prevented by political reasons, i.e. the government's anxiety that the Parliament (Saeima) would not accept the budget if it was more strained. The present situation can be assessed as "the change of the rules of the game in the middle of the game" because several government proposals have already been worked out which could come into effect in two or three months. For example, it is envisaged to abolish the reduced 12 % VAT for natural gas increasing it to 22 %, to increase the excise tax rate for alcohol, tobacco and petrol and to increase the gambling tax. And again the taxes will be increased.

The consolidation proposals refer to the budget expenditures too, which implies making corrections in the consolidated budget in order to reduce expenses of several Ministries, including the Ministry of Education and Science, the Ministry of The Interior, the Ministry of Health, the Ministry of Welfare as well as the expenses of other ministries and institutions.

The government's proposals have been widely criticized but their content is not unambiguous. There is an opinion that the consolidation should have taken place only in the expenditures of the budget reducing the expenses because further increase of taxes is a catastrophe of economy (Jaunups, 2011). On the other hand, there is a lot of criticism about the reduction of expenses, especially in socially sensitive areas. As the finance minister A.Vilks (2010) points out, the international creditors are not satisfied that the consolidation amount is too little when cutting the budget expenses. So, at present the international creditors do not support the idea about further increase of taxes. Analyzing the fiscal policy implemented by the government, the chief economist of Swedbank A.Kazāks has expressed

the viewpoint about the question whether the tax burden in Latvia is balanced and whether it facilitates the economic growth: "The tax system in Latvia is not balanced and does not ensure a balanced and sustainable growth of economy" (Kazāks, 2010). The author completely agrees with the viewpoint of M. Kazāks that a lot of problems, which have been mentioned above, have not been solved at the right time. One of the substantiations and vivid examples is a real estate tax which was outside the measures of the tax regulation, i.e. the tax was not imposed on housing and the tax on the profit from the deal in the real estate market was rarely paid. The result was the boom of the real estate.

One more example is personal income tax which was mainly on the wages without taking into account the fact that the typical income of the rich people was dividends and income from deposits. Consequently, the social justice was not observed and the people with low income had a substantially bigger tax burden than the people with high income. For a long time the application base rate of personal income tax was very narrow which fundamentally intensified the formation of the layers of society.

The measures of the budget consolidation and economic stabilization have been investigated in scientific and economic literature. The methods and techniques how to do it better and most effectively have been under discussion. It has been emphasized that the governments must find the least painful ways but there is not a strong point of view what to do better to increase taxes or to reduce expenses.

The author agrees that there is not a similar solution to all cases and the method of approach depends on the real situation in the country: in economy and society. The most important point is a complex and

timely action which is based on a thorough analysis, excluding the political factors in the decision-making as much as possible.

The author considers that primary in the state tax policy is to increase the competitiveness of its economy. This means that the globalization and tax harmonization must be strictly considered from the point of view of the state interests.

Conclusions

Globalization is a complex phenomenon, which encompasses a great variety of tendencies and trends in the economic, social and cultural spheres. It has a multidimensional character and thus does not lead itself to a unique definition. For the purpose of simplicity, it may be described as increasing and intensified movement of goods, services, capital, ideas, information and people between countries, as a result of which it produces cross-border integration of a number of economic, social and cultural activities. It creates both opportunities and costs and for this reason it should neither be demonized nor sanctified, nor should it be used as a scapegoat for the major problems which are affecting the world today.

Processes of globalization are differently evaluated. On the one hand, it is declared that the globalization improves the living standard of many people in the whole world. At the same time there is a widespread antiglobalization movement, the supporters of which point out that the globalization is a bigger gain of the developed countries at the expense of underdeveloped countries. This shows that there are a lot of questions and problems for the discussion and real solutions.

For a successful implementation of the common market idea in the European Union

it is necessary to reduce all barriers including in the area of taxes. It should be noted that the supporters and developers of the globalization process also consider that taxes are an essentially obstructive element which hinders the development of the process.

Tax policy is a very effective instrument in order to facilitate the political tasks of the European Union. However, we must take into account that tax policy is a key element of the independency of member states.

So, the harmonization of the tax system is a mutual reconciliation process of individual countries which involves the tax unification, interrelationship and the tax system and policy coordination. Judging from the theoretical point of view about the necessity of harmonization of taxes caused by the globalization the author agrees with this idea but at the same time points out that in practice this question is very complicated

and for particular countries it is unacceptable and unfavourable. For this reason the tax harmonization in the European Union takes place very slowly and some questions have even come to a halt.

Tax policy must not be adopted and implemented apart from all financial and budget processes in the country. In Latvia it is necessary to improve the quality and effectiveness of financial reforms including taxes based on economic calculations and substantiated forecasts, excluding the influence of political factors as much as possible. It is not acceptable to make amendments to the budget at the beginning of the year that causes an adverse effect on the production and social sphere. The tax policy must include the principle of flexibility which has already been tested long ago and which means a timely response to the changes in economy.

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MOKESČIŲ POLITIKA GLOBALIZACIJOS SĄLYGOMIS

S a n t r a u k a

Pasaulio ekonomikos globalizacijos procesas pasižymi tarptautinių kompanijų steigimu, intensyviu kapitalo srautu ir aktyviu darbo jėgos judėjimu. Esant tokioms aplinkybėms, verslininkai turi rasti naujų verslo valdymo ir kapitalo investavimo būdų. Sparti tarptautinio verslo plėtra daro didelę tiek teigiamą, tiek neigiamą įtaką nacionalinei ekonomikai. Ypač svarbu pabrėžti neigiamą globalizacijos įtaką valstybės pajamoms, kadangi kapitalo srautai teka į mažesnius mokesčius turinčius regionus ir tarptautinėms kompanijoms yra palanku registruotis *ofošorinėse šalyse* taip sumažinant įmokas savo šalies biudžetui.

Taigi vyriausybės privalo galvoti apie pataisas, kurios turėtų būti įgyvendinamos šalies ekonominėje ir finansų politikoje, tikslu sumažinti neigiamą globalizacijos įtaką valstybės biudžetui dėl vidaus rinkoje veikiančių kompanijų.

Vienas svarbiausių vyriausybės finansų politikos instrumentų yra mokesčiai, kurių taikymas iš esmės įtakoja verslo sprendimus dėl verslo kryptų, verslo formų, kapitalo investicijų ir kt.

Straipsnyje analizuojama neigiama ir teigiama globalizacijos įtaka verslumui bei šalies biudžetui. Didžiausias dėmesys sutelkiamas į mokesčių politiką kaip į svarbų fiskalinį instrumentą.

Mokesčių sistemos harmonizavimas Europos Sąjungoje yra tarpusavio suderinimo procesas atskirose šalyse, kuris apima tarpusavio mokesčių suderinimą bei mokesčių sistemos ir politikos koordinavimą, jei šalys priklauso skirtingoms tarptautinėms grupėms.

Teoriškai autorė sutinka su būtinybe harmonizuoti mokesčius, bet tuo pačiu metu parodo, kad praktiškai šis klausimas yra labai sudėtingas ir tam tikroms šalims visa tai gali būti nepalanku bei nepriimtina. Dėl šios priežasties mokesčių harmonizavimas Europos Sąjungoje vyksta labai lėtai, o kai kurie klausimai net yra sustabdyti.

Natūralu, kad nacionaliniai interesai mokesčių politikoje kelia pirminį susirūpinimą: subalansuotas biudžetas, geresnis pragyvenimo lygis ir teisingos apmokestinimo sistemos sukūrimas. Globaliniai mokesčių harmonizavimo klausimai lieka antrame plane arba net yra nepageidaujami.

Analizuodama mokesčių politiką Latvijoje, autorė daro išvadą, kad pastaraisiais metais ji nebuvo efektyvi. Autorės nuomone, svarbiausia šalies mokesčių politikos užduotis yra didinti šalies konkurencingumą. Tai reiškia, kad globalizacija ir mokesčių harmonizavimas turi būti griežtai svarstoma valstybės interesų požiūriu.