

The Budgetary and Economic Impact of Taxation in the Member States of the European Union

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Abstract: Fiscal policy is a key strategic instrument in the European macroeconomic framework, serving a dual role: as the primary source of public revenue and as a mechanism for countercyclical intervention, redistribution, and the correction of market failures. This research proposes an integrated, theoretical-empirical examination of the budgetary and macroeconomic repercussions of taxation in European Union member states, emphasizing the mechanisms through which the level and composition of tax revenues influence GDP growth, fiscal balance, employment, and living standards. Conceptually, the study is based on the classical and contemporary paradigms of public finance and on approaches regarding the nonlinear relationships between tax pressure and tax revenue. Methodologically, the study employs a comparative structural approach combined with descriptive analyses of time series and econometric inference – including higher-order polynomial regressions to test the empirical form of the Laffer Curve – based on official statistical data (EUROSTAT, AMECO). The main findings highlight persistent heterogeneity in fiscal positions across EU, a robust relationship between employment and the level of tax revenue collected, and a complex correlation between the tax burden and living standards, mediated by the tax base and productivity. The Romania case study indicates high elasticity of tax revenues to variations in tax pressure and reveals an empirical form of the Laffer Curve indicative of adverse effects on investment and economic activity in the upper tax bracket, suggesting critical thresholds for tax optimization. The theoretical and empirical contribution of this paper lies in providing a robust analytical framework for designing tax policies that maximize collection efficiency, strengthen fiscal sustainability, and minimize distortions on economic growth and social equity.

Keywords: European Union, fiscal policy, tax revenue, budget deficit, tax burden, GDP, Laffer Curve

1. Introduction

In the contemporary economic framework of the European Union, fiscal policy is one of the fundamental tools through which Member States aim to ensure macroeconomic stability, strengthen budget sustainability, and promote social inclusion. The acceleration of economic globalization, along with the successive financial, health, and geopolitical crises of recent decades, has underscored the importance of taxation in modeling economic performance and maintaining the structural balances of European economies. In this context, the role of fiscal policy extends beyond the traditional function of mobilizing the financial resources to finance public expenditures, to include complex functions of economic stabilization, income redistribution, and the promotion of sustainable development.

From a theoretical perspective, the academic literature identifies taxation as an essential mechanism of state involvement in the economy, capable of influencing the behavior of economic agents and the dynamics of key macroeconomic indicators. In this vein, Richard Musgrave identifies the three fundamental functions of fiscal policy—allocative, distributive, and stabilizing—emphasizing their direct impact on economic efficiency and the level of social welfare (Musgrave, 1959). Complementarily, T. H. Marshall’s conception of the “welfare state”

highlights the interdependence between democracy, capitalism, and social protection, emphasizing the need to use fiscal policy as a tool to reduce inequalities and support social inclusion. At the same time, contemporary economic debates regarding the optimization of tax rates are informed by the Laffer Curve, according to which the relationship between tax pressure and tax revenue is not linear; there is a tax threshold beyond which tax increases can have adverse effects on economic activity and the tax base.

The relevance of research on the impact of taxation on the economies of EU member states arises from the strategic nature of fiscal policy in managing budgetary deficits and supporting long-term economic growth. The level and structure of tax revenues have a direct influence on the state's ability to finance areas essential for economic and social development, such as health, education, infrastructure, and social protection. At the same time, the pressures generated by an aging population, international economic volatility, and the effects of recent crises require a rethinking of fiscal mechanisms and the identification of sustainable models for public finance management. Within the European Union, the existence of significant structural differences among Member States regarding the tax burden, the budget deficit, the unemployment rate, or the standard of living highlights the need for an in-depth comparative analysis aimed at identifying best fiscal practices and effective mechanisms for fiscal consolidation.

This paper aims to investigate the macroeconomic impact of taxation in the member states of the European Union, with reference to key economic indicators such as gross domestic product, tax revenue, the budget deficit, the unemployment rate, and the standard of living of the population. The scientific approach seeks to highlight how the structure of tax systems influences economic stability, financial performance, and fiscal sustainability. At the same time, the research analyzes the interdependencies between taxation and key macroeconomic variables, with a focus on the effects generated by fiscal policies adopted in the post-pandemic context and in light of recent European economic transformations.

From a methodological perspective, the study employs an empirical approach based on a comparative analysis of European Union member states and a descriptive examination of statistical time series for key fiscal and macroeconomic indicators. The research uses statistical data from official European sources, such as EUROSTAT and AMECO, providing a comprehensive overview of economic and fiscal developments at the European and national levels. To complement the descriptive analysis, econometric methods are used to identify correlations between the tax burden and tax revenues, as well as to test the empirical validity of the Laffer Curve model in the case of Romania.

Empirical analysis highlights the existence of significant regional differences within the EU in terms of fiscal performance and levels of economic development. The Nordic countries stand out for their strong fiscal discipline and effective models of social redistribution, while certain economies in Eastern and Southern Europe continue to suffer from high structural deficits and vulnerabilities caused by economic rigidities and significant social pressures. At the same time, the research reveals a direct relationship between employment levels and the collection of tax revenues, as well as a complex interdependence between the level of taxation and the population's standard of living.

In the case study on Romania, the analysis of the Laffer Curve highlights the national economy's high sensitivity to fluctuations in tax pressure and the existence of restrictive effects caused by high tax rates on investment and economic activity. The empirical results suggest that excessive increases in taxation can lead to a decline in economic attractiveness and a reduction in the tax base, a finding that confirms the relevance of economic theories regarding the optimization of tax pressure.

However, the research faces a number of inherent limitations, driven by the influence of exogenous factors that are difficult to quantify, such as monetary policies, geopolitical shocks, or the effects of recent health and economic crises. Furthermore, methodological differences between national tax systems and potential time lags in official statistical data may affect the comparability of results. Nevertheless, the identified limitations do not diminish the relevance of the scientific research, but rather underscore the importance of interpreting the results within a complex and dynamic economic framework.

Through its conclusions, this study contributes to a deeper understanding of fiscal mechanisms and their implications for the economic and social performance of EU member states. At the same time, the research provides relevant insights for stakeholders involved in the development of fiscal policies, highlighting the need to adapt fiscal measures to the structural characteristics of each economy and to the objectives of sustainable development, social equity, and macroeconomic stability.

2. Literature review

In recent decades, fiscal policy has become a central topic in economic debates concerning the capacity of governments to ensure macroeconomic stabilization and manage economic fluctuations. Within the framework of the European Monetary Union (EMU), fiscal policy gained particular importance because it remains one of the few macroeconomic instruments available to national authorities after the transfer of monetary policy responsibilities to the European level (Hauptmeier et al., 2010; Turrini, 2008). Scholars emphasize fiscal measures can play a crucial role in mitigating economic downturns and supporting aggregate demand, especially during periods when monetary policy faces institutional or structural constraints.

During the 1950s and 1960s, discretionary fiscal policy was widely regarded as an effective mechanism for economic stabilization. However, the economic crises and growing fiscal imbalances experienced during the 1970s generated a more critical perspective on the effectiveness of active fiscal intervention. These developments revealed the limitations of discretionary fiscal policy, particularly its contribution to persistent budget deficits and rising public debt. Nevertheless, more recent economic crises have renewed interest in fiscal policy as a stabilization instrument capable of counteracting prolonged demand shocks and supporting economic recovery when conventional monetary tools become less effective (Turrini, 2008).

Theoretical and empirical literature generally supports the idea that fiscal policy should operate in a counter-cyclical manner. In periods of economic slowdown or recession, governments are expected to stimulate economic activity through lower taxation or increased public expenditure, whereas restrictive fiscal measures are considered appropriate during economic booms to prevent overheating and ensure fiscal sustainability (Cimadomo, 2005). Despite this theoretical consensus, several empirical studies identify the persistence of pro-cyclical fiscal behavior, particularly in developing economies (Alesina & Tabellini, 2005; Talvi & Végh, 2005; Manasse, 2006).

A substantial part of research has focused on the cyclical behavior of fiscal policy within EMU member states. Turrini (2008), analyzing euro-area countries between 1980 and 2005, found evidence that fiscal policy often displayed a pro-cyclical bias during periods of economic prosperity, mainly driven by excessive public expenditure expansion. The study also suggested that expenditure rules could help limit this tendency and improve fiscal discipline during favorable economic conditions. In contrast, Gali and Perotti (2003) argued that discretionary fiscal policy became increasingly counter-cyclical during the 1980–2002 period. Their findings indicate that the Maastricht criteria and the Stability and Growth Pact did not significantly weaken the stabilizing role of fiscal policy within the EMU. Similar conclusions were supported by Annett (2006) and Wyplosz (2006), who challenged the argument that European fiscal rules necessarily increased pro-cyclicality.

The literature also highlights the methodological complexity of evaluating fiscal cyclicity. Golinelli and Momigliano (2008) emphasized that assessments of fiscal stance and cyclical behavior vary considerably depending on the sample selection, econometric specification, and data sources employed. Most empirical analyses focus on the relationship between the cyclically adjusted primary balance and the output gap, which are commonly used indicators for measuring fiscal stance and economic conditions.

Alongside debates regarding fiscal stabilization, the issue of fiscal harmonization within the European Union has attracted considerable scholarly attention since the 1980s. Haan and Sturm (1994) examined the political and institutional constraints limiting fiscal harmonization across EU member states, arguing that national interests and institutional barriers hinder the establishment of a unified fiscal framework. Similar conclusions were reached by Bracewell-Milnes and Banstead (1999), who argued that political limitations represented the primary obstacle to tax harmonization within the EU. Easson (1999) also emphasized the persistence of structural and institutional differences in European taxation systems.

Further contributions to the literature stressed the importance of fiscal coordination for ensuring fair competition within the European single market. Pereira (1998) advocated the introduction of greater fiscal discipline and ethical standards to combat harmful tax competition and fiscal fraud among member states. Likewise, Mitchell and Daniel (2004) considered fiscal harmonization a fundamental condition for preserving fair economic competition within the European Union.

Following the global financial crisis, attention shifted primarily toward financial and banking system stabilization, while fiscal harmonization received comparatively less attention. Nevertheless, more recent studies have renewed concerns regarding fiscal competition among EU member states. Dombrovskis (2019) highlighted the necessity of advancing fiscal harmonization as part of broader European economic governance reforms. Similarly, Lamla, Lein, and Sturm (2019) identified a relationship between the absence of fiscal harmonization and increasing public finance vulnerabilities, particularly affecting weaker European economies.

Recent research also underlines the growing impact of globalization on fiscal competition. Gygli, Haelg, Potrafke, and Sturm (2018) demonstrated that increasing global economic integration intensified competitive pressures among states, complicating efforts to establish coordinated fiscal policies at the European level. Furthermore, Haan and Sturm (2016) argued that, despite decades of discussion, there remains insufficient political willingness among EU member states to pursue meaningful fiscal integration. According to their analysis, member states continue to behave as fiscal competitors rather than as fully integrated partners within an economic and monetary union.

Haan and Sturm (1994; 2016) provide an important perspective on the challenges associated with fiscal coordination and tax harmonization within the European Union. Drawing upon principles derived from game theory, the authors argue that cooperation becomes increasingly difficult as the number of participating actors expands, thereby emphasizing the governance difficulties generated by systems involving numerous stakeholders, as well as by coalition-based political structures. Their analysis highlights the institutional and political complexities that arise when multiple governments attempt to coordinate common fiscal objectives within a supranational framework.

According to de Haan and Sturm (1994; 2016), the achievement of direct tax harmonization among EU member states cannot be explained solely through macroeconomic factors. Instead, they contend that progress in European fiscal integration depends primarily on the existence of favorable political and institutional conditions. In their view, the most significant obstacles stem directly from the structure of national political systems and from the ideological orientation of governing political actors.

The authors further argue that member state governments tend to shape fiscal policy according to their own domestic economic circumstances and political interests. This process is strongly influenced by political instability and electoral dynamics, which frequently compel ruling parties to adopt short-term fiscal measures aimed at satisfying electoral expectations rather than pursuing coherent long-term macroeconomic objectives. Consequently, fiscal policymaking often departs from the traditional ideological distinction between left-wing and right-wing economic approaches, becoming increasingly driven by political opportunism and electoral cycles.

Within this analytical framework, Haan and Sturm emphasize that although economic and legal determinants remain relevant for the evolution of fiscal policy within the EU, political and institutional constraints ultimately play a decisive role in shaping the pace and direction of tax harmonization. Their research suggests that the absence of stable political consensus and coordinated governance mechanisms continues to represent a major barrier to deeper fiscal integration among EU member states.

Overall, the literature suggests that fiscal policy remains a critical instrument for macroeconomic stabilization and economic governance within the European Union. At the same time, persistent political, institutional, and economic constraints continue to limit the progress of fiscal harmonization and coordinated fiscal governance across member states.

3. Research Methodology

The theoretical framework of this study is grounded in the specialized literature on taxation, public finance, and the European economy, with fiscal policy, budgetary balance, tax burden, and the Laffer Curve theory serving as its key conceptual pillars. In developing the scientific approach, the contributions of several renowned authors in the field of fiscal economics were utilized, as well as studies and reports published by relevant European and international institutions. These sources provide a solid theoretical foundation for understanding the mechanisms through which taxation influences macroeconomic stability, the sustainability of public finances, and the dynamics of economic development.

From a methodological perspective, the research employs a comparative approach applied to European Union member states, completed by a descriptive examination of statistical series related to key macroeconomic and fiscal-budgetary indicators. The empirical dimension of the study is based on official statistical data drawn from databases recognized at the European level, such as EUROSTAT and AMECO, which allow for the investigation of economic developments both at the EU level and at the level of each member state. Integrating the theoretical perspective with empirical analysis facilitates the development of a coherent image of how taxation influences fiscal stability and economic performance.

This research effort faces a number of limitations inherent to comparative economic analysis. The impact of taxation on the economy is influenced not only by the macroeconomic variables analyzed, but also by exogenous factors such as monetary policies, international economic developments, geopolitical tensions, or

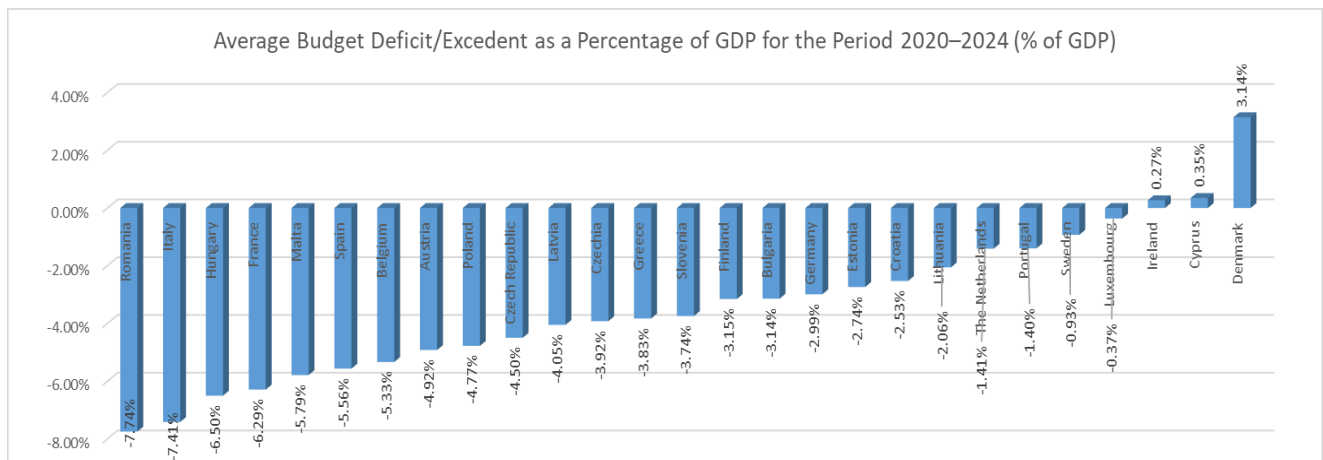
health crises—elements that cannot be fully incorporated into the descriptive analysis. Furthermore, although the databases used provide rigorous and standardized information, they may contain time lags in the statistical updating process. In addition, the diversity of national tax systems and differences in the fiscal policies adopted by member states complicate the process of methodological harmonization and the full comparability of results. Nevertheless, the identified limitations do not diminish the relevance of the research but require the interpretation of the results within an objective and realistic analytical framework.

From a conceptual perspective, the study contributes to a deeper understanding of taxation as a tool able to stimulate or hinder economic growth, depending on the intensity and structure of the tax burden. From an empirical perspective, the comparative analysis highlights the differences and similarities among EU member states regarding the level of tax burden, fiscal position, and implications for living standards. At the same time, the research findings allow for the identification of correlations between the level of taxation and the dynamics of tax revenues in the European context. In this regard, the Laffer Curve serves as a relevant tool for assessing the relationship between taxation and economic performance, through statistical testing of the model’s validity and its consistency with the hypotheses formulated in the specialized economic literature. Through its conclusions, this paper offers useful insights for policymakers involved in the development and adaptation of fiscal policies, contributing to a deeper understanding of fiscal-budgetary mechanisms and their implications for the economy.

4. Empirical results

The budget deficit is one of the most relevant indicators of fiscal policy, reflecting both governments’ ability to manage public resources and the strategies used to correct budgetary imbalances. The evolution of this indicator provides important information regarding the sustainability of public finances and the effects of fiscal policies on key macroeconomic indicators.

Figure no. 1



Source: Database collected from

https://dashboard.tech.ec.europa.eu/qs_digit_dashboard_mt/public/sense/app/667e9fba-eea7-4d17-abf0-ef20f6994336/sheet/f38b3b42-402c-44a8-9264-9d422233add2/state/analysis/ on 03.08.2025

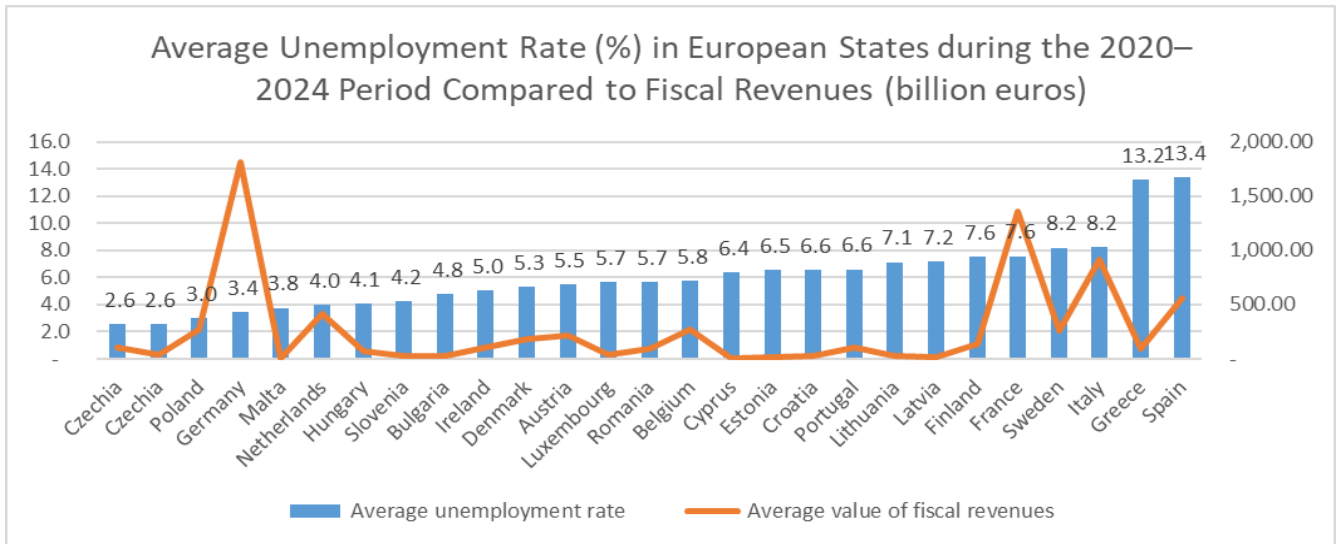
Figure 1 shows the average level of the budget deficit as a percentage of GDP in EU member states for the period 2020–2024, a period heavily influenced by the economic effects of the COVID-19 pandemic. The figure reveals significant differences among member states in terms of their fiscal positions. Thus, countries such as Romania, Italy, Hungary, France, Malta, Spain, and Belgium recorded high budget deficits, exceeding the threshold of 5% of GDP. Romania stands out with the highest budget deficit, at 7.74% of GDP, reflecting significant pressures on public finances and heightened fiscal vulnerability.

These economies share high levels of public expenditures and the necessity to support extensive social and economic measures in the context of recent crises. Large budget deficits indicate the presence of persistent structural imbalances and increased reliance on external financing sources, factors that may affect long-term fiscal sustainability and macroeconomic stability.

At the same time, countries such as Austria, Poland, Slovakia, Latvia, the Czech Republic, Greece, and Slovenia recorded moderate budget deficits, ranging from 3% to 5% of GDP. Although these economies were

significantly affected by the pandemic, they managed to maintain a relatively higher degree of fiscal discipline by implementing economic support measures coupled with fiscal consolidation policies. These results indicate more efficient fiscal mechanisms and a greater capacity to adapt to external economic shocks.

Figure no. 2



Source: Database collected from https://dashboard.tech.ec.europa.eu/qs_digit_dashboard_mt/public/sense/app/667e9fba-eea7-4d17-abf0-ef20f6994336/sheet/f38b3b42-402c-44a8-9264-9d422233add2/state/analysis/ on 03.08.2025

Figure 2 highlights the disparities among EU Member States regarding the average unemployment rate for the 2020–2024 period—a timeframe heavily influenced by the economic consequences of the COVID-19 pandemic—and the relationship between this indicator and tax revenue levels. The identified differences have significant implications for tax collection capacity, the scale of public spending, and, consequently, the macroeconomic stability of each Member State.

The countries with the lowest unemployment rates, ranging from 2.6% to 4.2%, are the Czech Republic, Poland, Germany, Malta, the Netherlands, and Hungary. These economies are characterized by relatively stable labor markets, high labor absorption rates, and diversified economic structures that are largely export-oriented. Their ability to mitigate the negative effects of the pandemic crisis has helped keep pressure on public budgets at a low level, particularly regarding social spending related to unemployment benefits and social support measures.

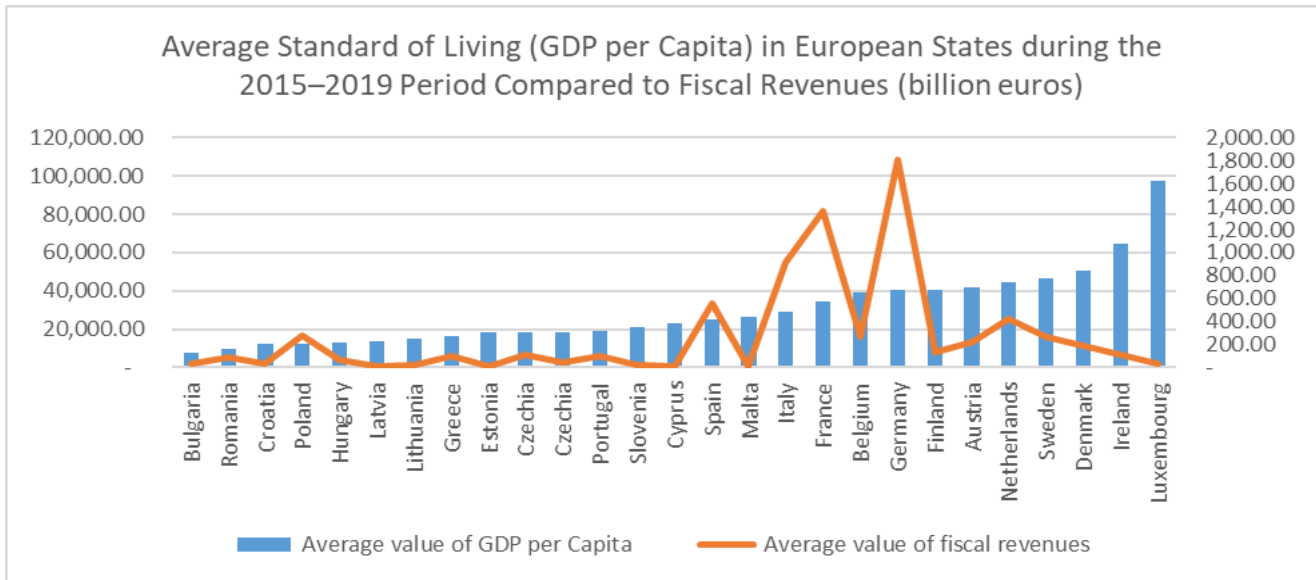
A moderate unemployment rate, ranging from 4.8% to 7.0%, is found in countries such as Slovenia, Bulgaria, Ireland, Denmark, Austria, Luxembourg, Romania, Belgium, Slovakia, Cyprus, Estonia, and Croatia. Although these countries differ significantly in terms of economic structure and level of development, they have managed to maintain relative labor market stability amid recent economic uncertainties. This situation suggests the existence of institutional and fiscal mechanisms capable of limiting employment volatility. In contrast, countries such as Lithuania, Latvia, Finland, France, Sweden, and Italy have higher unemployment rates, ranging from 7.1% to 8.2%. This group of economies is characterized by structural rigidities in the labor market, a phenomenon particularly evident in France and Italy. High unemployment places additional pressure on public finances by increasing social spending and reducing revenue from employment-related contributions and taxes. During economic slowdowns, these effects lead to a narrowing of available fiscal space and require the implementation of fiscal and economic policies aimed at stimulating economic activity and reducing unemployment, in order to restore macroeconomic balance and fiscal sustainability.

Figure 3 illustrates the relationship between GDP per capita and the level of tax revenue in the Member States of the European Union, highlighting the interdependence between the population’s standard of living and the fiscal capacity of national economies. A comparative analysis of these macroeconomic indicators reveals significant structural differences among member states, reflecting distinct levels of economic development, productivity, and the efficiency of tax systems.

Countries such as Bulgaria, Romania, Croatia, Poland, Hungary, Latvia, Lithuania, and Slovakia are characterized by low GDP per capita and low levels of tax revenue. These economies have narrower tax bases,

driven mainly by low wage levels and relatively low labor productivity. Consequently, the state's ability to mobilize tax revenue is limited, which can affect the financing of public investments and the sustainability of social systems.

Figure no. 3



Source: Database collected from https://dashboard.tech.ec.europa.eu/qs_digit_dashboard_mt/public/sense/app/667e9fba-eea7-4d17-abf0-ef20f6994336/sheet/f38b3b42-402c-44a8-9264-9d422233add2/state/analysis/ on 03.08.2025

An intermediate level of these indicators is found in countries such as the Czech Republic, Estonia, Portugal, Slovenia, Cyprus, Spain, Malta, and Italy. These economies have living standards close to the EU average and a moderate level of tax revenue collected. In this context, a relative balance can be observed between the tax burden on taxpayers and the ability of tax administrations to collect public revenue efficiently.

The category of the most highly developed economies includes Belgium, Germany, France, Austria, the Netherlands, Sweden, Denmark, Ireland, and Luxembourg. The Nordic and Western European countries benefit from robust tax systems, supported by broad tax bases, high wage levels, and superior labor productivity. These characteristics enable the collection of substantial tax revenues, which facilitate the financing of well-developed public systems, including in areas such as health, education, and social protection. In the case of the Nordic models, high taxation is associated with a high level of social welfare and an efficient redistribution of resources, thereby contributing to the strengthening of economic and social cohesion.

6. The Laffer Curve and the tax burden in Romania

The Laffer Curve is a fundamental tool for justifying and evaluating the fiscal policies adopted by European Union member states, providing a relevant analytical framework for examining the relationship between the level of taxation and economic performance. According to this concept, there is an optimal level of tax burden at which public revenues are maximized without generating significant negative effects on economic activity. In this regard, adjustments to tax rates can directly influence the state's ability to collect tax revenues, the level of investment, and the pace of economic growth.

Applying the principles associated with the Laffer Curve allows for the evaluation of the efficiency of EU member states' national tax systems and the identification of circumstances in which the level of taxation can stimulate or, conversely, inhibit economic activity. Thus, analyzing the relationship between the tax burden and tax revenue helps formulate sustainable fiscal policies aimed at fiscal consolidation and macroeconomic balances.

The empirical component of the study utilizes statistical data from the AMECO database for the period 2000–2024, analyzing relevant macroeconomic variables such as nominal tax revenue, the consumer price index (CPI) with a base year of 2015, real tax revenue, real GDP, and the level of gross tax burden. Within the

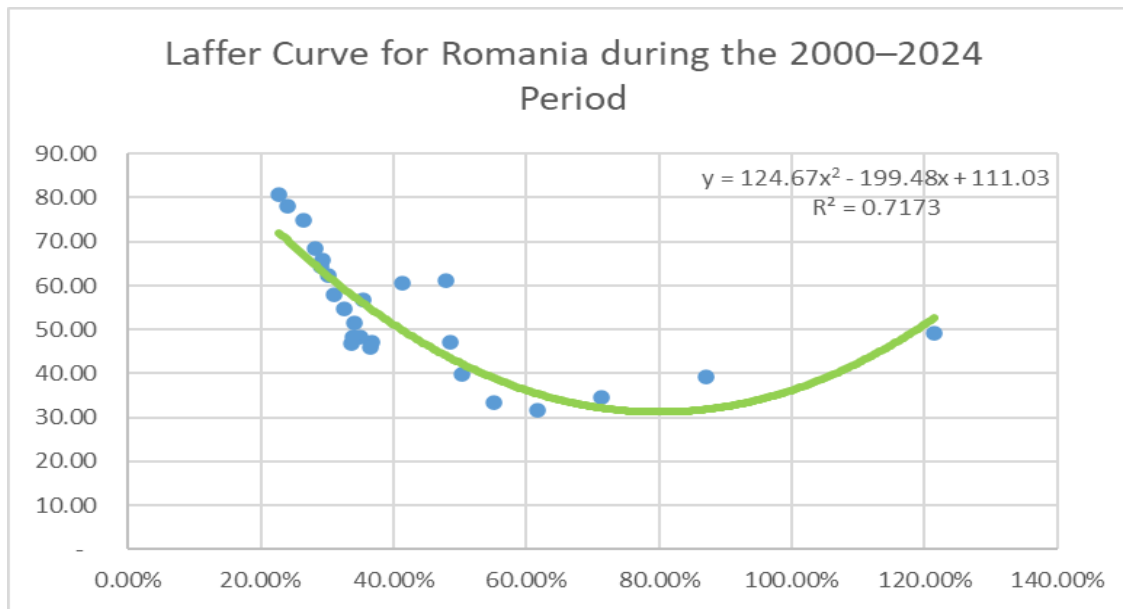
econometric model, the gross tax burden is considered as an independent variable, plotted on the X-axis, while real tax revenues constitute the dependent variable, plotted on the Y-axis.

From an econometric perspective, Figure 4 presents a second-order polynomial regression with an equation in the form $y = 124.67x^2 - 199.48x + 111.03$, having a coefficient of determination R^2 of 0.7173:

$$y = 124.67x^2 - 199.48x + 111.03$$

This result indicates that approximately 71.73% of the variation in actual tax revenues can be explained by changes in the level of the tax burden. In the economic literature, a coefficient of determination above the threshold of 0.7 is considered relevant and suggests a high explanatory capacity of the econometric model used.

Figure no. 4



Source: Data Base from

https://dashboard.tech.ec.europa.eu/qs_digit_dashboard_mt/public/sense/app/667e9fba-eea7-4d17-abf0-ef20f6994336/sheet/f38b3b42-402c-44a8-9264-9d422233add2/state/analysis/ on pe 03.08.2025

The U-shaped curve indicates the existence of a minimum point for real tax revenue associated with a certain intermediate level of taxation. This configuration highlights the complex and nonlinear nature of the relationship between taxation and economic performance, confirming the hypothesis that excessive variations in the tax burden can have adverse effects on the tax base and on the efficiency of public revenue collection.

From a mathematical perspective, the derivative of the equation allows for the identification of a theoretical optimal point of taxation:

$$x_{\text{optimal}} = 199.48 / (2 * 124.67) = 0.80 \text{ or } 80\%$$

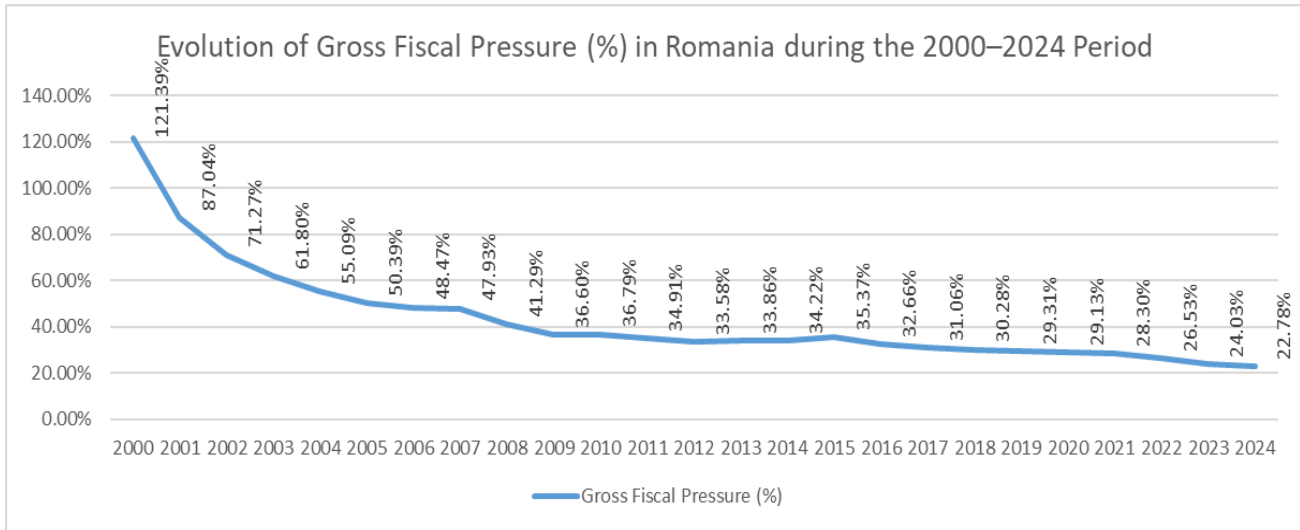
Thus, the model suggests that actual tax revenues are minimal around a tax rate of approximately 80%, and above this level they theoretically begin to increase. However, the coefficient of the linear term—199.48—is negative, which is consistent with the theory that excessive tax increases can reduce the tax base. From a fiscal-budgetary perspective, the graph shows that tax revenues are high at low tax rates of 20–35%. As the tax rate increases within the 40–70% range, revenues appear to decline because the economic attractiveness for those investing in Romania decreases.

Figure 5 illustrates the downward trend in gross tax burden in Romania over the 2000–2024 period, reflecting the structural reforms of fiscal policy and the country's economy in the context of the European integration process and successive macroeconomic adjustments. The evolution of this macroeconomic indicator is characterized by a significant reduction in the first part of the analyzed period, followed by a period of relative stabilization after 2010.

Between 2000 and 2004, there was a sharp decline in the gross tax burden, from approximately 121% to 56%, a trend related to the post-transition economic restructuring process and the tax reforms implemented following the economic difficulties of the 1990s. The significant reduction in taxation was also influenced by the adjustments implemented in view of Romania's acceding to the European Union, a process that required the

harmonization of the tax framework and the implementation of policies aimed at stimulating economic competitiveness and attracting investment.

Figure no. 5



Source: Data Base from

https://dashboard.tech.ec.europa.eu/qs_digit_dashboard_mt/public/sense/app/667e9fba-eea7-4d17-abf0-ef20f6994336/sheet/f38b3b42-402c-44a8-9264-9d422233add2/state/analysis/ on 03.08.2025

Between 2005 and 2009, the gross tax burden continued to decline, although at a more moderate pace, from approximately 55% to 36%. This trend can be attributed both to the fiscal relaxation measures implemented in the pre-accession period and to improved tax compliance and the strengthening of administrative collection mechanisms.

Between 2010 and 2014, the gross tax burden stabilized at levels ranging from 33% to 36%, against the backdrop of economic recovery and the implementation of fiscal consolidation measures adopted following the global financial crisis. Subsequently, the 2015–2024 period is characterized by the maintenance of relative fiscal stability, accompanied by a slight downward trend, driven mainly by fiscal easing policies and measures aimed at supporting the business environment and stimulating domestic consumption.

From a fiscal-budgetary perspective, the reduction in gross fiscal pressure was associated with a decrease in the share of tax revenues relative to the government’s financing needs. In this context, public authorities have been forced to increasingly resort to alternative financing mechanisms, such as increasing the budget deficit, raising public debt, and intensifying the use of external borrowing. This development highlights the complex relationship between the tax burden, the sustainability of public finances, and the government’s ability to maintain macroeconomic stability in the long term.

7. Conclusions

This study highlights the fundamental role of fiscal policy in ensuring macroeconomic stability, fiscal sustainability, and long-term economic development within the European Union. The comparative and empirical analysis of member states demonstrates that taxation is not only a mechanism for raising public revenue but also a strategic tool able to influence investment dynamics, labor market performance, social cohesion, and overall economic resilience. In the contemporary European context, marked by a succession of financial, health, and geopolitical crises, fiscal policy has become a key factor in reducing economic vulnerabilities and supporting sustainable economic growth.

The research findings highlight the existence of persistent structural disparities among European economies in terms of budget balance, unemployment rates, tax compliance rates, and living standards. Northern and Western European countries are characterized by strong fiscal discipline, high levels of productivity, and efficient redistribution mechanisms, which allow for the financing of extensive social systems while maintaining

macroeconomic stability. In contrast, many economies in Eastern and Southern Europe continue to experience high structural deficits, low tax compliance rates, and a heavy reliance on external financing mechanisms. These differences confirm that the effectiveness of fiscal policy is directly conditioned by institutional quality, the structure of the economy, and the capacity of public administrations to implement coherent and sustainable fiscal policies.

An analysis of the relationship between the unemployment rate and tax revenue confirms the existence of a strong interdependence between employment and the sustainability of public finances. Economies characterized by stable labor markets and low unemployment rates benefit from greater tax collection capacity and less pressure on social spending. In contrast, countries affected by structural labor market rigidities and high unemployment face declining tax revenues and increased difficulties in maintaining budgetary balances. These findings underscore the importance of implementing integrated fiscal and economic policies aimed both at stimulating employment, increasing productivity, and strengthening public revenues.

At the same time, research confirms the existence of a complex relationship between the level of taxation and the population's living standard. Countries with broad tax bases, high wage levels, and superior productivity are able to sustain efficient tax systems and generate substantial public revenues, which enable major investments in education, health care, and infrastructure. In this regard, the experience of the Nordic countries demonstrates that high tax rates can coexist with strong economic performance and a high level of social welfare when the collected resources are managed efficiently and redistributed fairly.

A central focus of this research is the empirical validation of the Laffer Curve in Romania. The econometric results indicate the existence of a nonlinear relationship between the tax burden and real tax revenues, confirming the hypothesis that excessive increases in taxation can have negative effects on the tax base, investment, and economic attractiveness. The high coefficient of determination of the econometric model highlights the statistical significance of the analyzed relationship and suggests that the Romanian economy is highly sensitive to changes in fiscal policy. At the same time, the downward trend in the gross tax burden between 2000 and 2024 reflects the structural transformations of the Romanian economy and the process of adapting to the requirements of European integration. However, the reduction in the tax burden was not without budgetary costs. The decline in tax revenues relative to the government's financing needs led to a widening of the budget deficit, an increase in public debt, and a rise in external borrowing. This situation highlights the need to strike an optimal balance between stimulating economic activity and ensuring the sustainability of public finances. In the absence of appropriate fiscal policy calibration, excessive tax relaxation can lead to structural vulnerabilities and a decline in long-term macroeconomic stability.

From a theoretical perspective, this study demonstrates that the effects of fiscal policy cannot be analyzed strictly in terms of the level of taxation, but must also be considered in relation to the structure of the economy, institutional efficiency, the political context, and the degree of economic development. At the same time, the results confirm the relevance of classical and contemporary theories of public finance, particularly regarding the stabilizing function of fiscal policy and the nonlinear nature of the relationship between taxation and public revenues.

In practical terms, the study's conclusions provide important guidelines for policymakers involved in the elaboration of fiscal and budgetary policies at the European and national levels. The research underscores the importance of adopting flexible fiscal policies, tailored to the structural characteristics of each economy and aimed at stimulating investment, strengthening the tax base, and maintaining fiscal sustainability. Furthermore, the results highlight the importance of fiscal coordination within the EU to reduce economic imbalances and limit the negative effects generated by excessive tax competition among member states.

In conclusion, fiscal policy remains one of the most significant instruments of economic governance within the EU, with direct implications for financial stability, economic growth, and social cohesion. In a global economic environment marked by uncertainty and high volatility, the effectiveness of fiscal policies will increasingly depend on the ability of member states to strike a sustainable balance between the need to finance public spending and maintaining economic competitiveness. Thus, the future of European fiscal consolidation requires not only the adoption of prudent budgetary policies but also the development of institutional mechanisms capable of supporting economic convergence, fiscal solidarity, and the long-term resilience of European economies.

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