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Chapter 16

The Effects of Globalization on Public Expenditures, Tax Revenues, and Public Debt: An Empirical Evidence From the European Countries

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ABSTRACT

Globalization is a process that transcends national borders, integrates national economies, cultures, technologies, governance and generates complex affairs with interdependence. Considering the emergence of globalization, the way it spreads and its impact areas, economic, financial, political, cultural, technological, geographical, sociological, and ecological aspects are mentioned. In this study, the effect of globalization on public expenditures, tax revenues and public debt in 1995-2017 period for EU countries was investigated within the framework of compensation and efficiency hypotheses. Analysis results indicate that globalization has a negative effect on public expenditures, but a positive effect on tax revenues. Study results analyzing the effects of globalization in EU countries favour the efficiency hypothesis in terms of public expenditures and the compensation hypothesis in terms of tax revenues. In addition, although panel cointegration tests indicate a long-term relationship between globalization and public debt in EU countries, long-term coefficients are not statistically significant.

DOI: 10.4018/978-1-7998-4459-4.ch016

CONCLUSION AND EVALUATION

The effect of globalization on public economy and financial tools has always been an attractive issue. For that reason, the number of studies investigating the effect of globalization on public expenditures, tax revenues and public debt is quite high. The limit of public economy and economic scope of the state have formed the fundamental of the thoughts in economics. Mercantilist view which adopted the intervention in economic scope and Keynesian economic view which widened its scope following the crisis in 1929 maintained their effects for long years. On the contrary, Classical economic view based on minimal state and free market economy advocated that economic activities of the states were unproductive and inefficient. On the basis of relevant thoughts, the size and limit of public economic activities have changed until today.

Globalization in the new world order is also now among the important factors that determine the economic limits and size of the states. Along with the globalization economic scope of the nation states was also restricted. For instance, taxes for foreign trade have gradually decreased for some reasons such as the increasing mobility of production factors, regional integrations, and multinational companies. The reasons of the increase in public expenditures, public revenues and public debt were analyzed based on internal factors in the fundamentals of economic thoughts and other economic theories. However, Cameron's (1978) premise study and Rodrik's (1998) studies determined that globalization tendencies of countries measured by openness increased public expenditures. The effect of globalization on public economy is basically explained with two main hypotheses. They are compensation hypothesis and efficiency hypothesis.

In this study the effect of globalization on public expenditures, tax revenues and public debt in EU countries in 1995-2017 period was analyzed through panel data analysis based on the relevant studies. According to the analysis results, it was identified that long term effect of globalization on public expenditures was negative; however, long term effect of globalization on tax revenues was positive. Study results favour the efficiency hypothesis for the effect of globalization on public expenditures, but the compensation hypothesis for the effect of globalization on tax revenues. In addition, it was determined that the effect of globalization on public debt was positive, but statistically insignificant

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Handbook of Research on Institutional, Economic, and Social Impacts of Globalization and Liberalization

Yilmaz Bayar
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A volume in the Advances in Finance, Accounting,
and Economics (AFAE) Book Series

Published in the United States of America by

IGI Global
Information Science Reference (an imprint of IGI Global)
701 E. Chocolate Avenue
Hershey PA, USA 17033
Tel: 717-533-8845
Fax: 717-533-8661
E-mail: cust@igi-global.com
Web site: <http://www.igi-global.com>

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Library of Congress Cataloging-in-Publication Data

Names: Bayar, Yilmaz, 1977- editor.

Title: Handbook of Research on Institutional, Economic, and Social Impacts of Globalization and Liberalization / Yilmaz Bayar, editor.

Description: Hershey, PA : Business Science Reference, [2021] | Includes bibliographical references and index. | Summary: "This book offers many perspectives on the institutional, economic and social impacts of globalization and the result of the liberalization processes in the world, specifically evaluating the economic affects on institutions, cultures, social life and national and international politics"-- Provided by publisher.

Identifiers: LCCN 2020018681 (print) | LCCN 2020018682 (ebook) | ISBN 9781799844594 (hardcover) | ISBN 9781799844600 (ebook)

Subjects: LCSH: Globalization. | Globalization--Social aspects.

Classification: LCC HF1365 .I56 2021 (print) | LCC HF1365 (ebook) | DDC 303.48/2--dc23

LC record available at <https://lcn.loc.gov/2020018681>

LC ebook record available at <https://lcn.loc.gov/2020018682>

This book is published in the IGI Global book series Advances in Finance, Accounting, and Economics (AFAE) (ISSN: 2327-5677; eISSN: 2327-5685)

British Cataloguing in Publication Data

A Cataloguing in Publication record for this book is available from the British Library.

All work contributed to this book is new, previously-unpublished material. The views expressed in this book are those of the authors, but not necessarily of the publisher.

For electronic access to this publication, please contact: eresources@igi-global.com.

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