NATIONAL FINANCE SUSTAINABILITY PERCEPTION -
THE EVIDENCE FROM THE LAST CRISIS IN BALTICS

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Abstract. National finance sustainability is likely an essential issue for the country’s development. These aggregated perceptions change the nation’s public sector and the security of citizens’ lives. Therefore, a significant focus on the broad improvement of finance studies could be an essential issue. Besides, that activity could be organized in connection with the applicable higher education programs. On the other hand, the government’s finance management understanding is treated differently in various countries. That is becoming increasingly essential condition that such a discussion does not directly benefit the common development of financial education in recent years. One of the possible ways to deal with personal finances in different economic conditions could be changing attitudes to finance knowledge among top management in universities. The young people could be supported by financial education programs that are clearly incorporated into their undergraduate or postgraduate courses. The correct management of these programs helps to improve student learning experience and the economic well-being. Moreover, the learning based on the transparent public administration believably educate patriots of the country and the peoples’ intolerance to non-transparent activities of public servants. The other important task of the paper is to reveal how public debt and public spending management could influence the issues of fiscal policy sustainability. In addition, this paper also tries to clarify questions about economic importance on financial education in the all levels of studies. Furthermore, the theoretical task of the paper is to show the size of the government debt, government debt service and expenditure in Lithuania and Latvia, during the last crisis in the first decade of the twenty first century. Then the overpaid debt services can be given to the hypothesis that an ordinary individual has less than EU average standard of financial and/or economical education. This conceptualization of the tax burden can encourage each citizen of the country to be responsible for the public servants’ activity and for the transparency of a budget planning process. The public revenue improvement is a really challenging procedure. Since using the same concept of taxes as fixed costs for public sector when person directly received nothing, but additional payments for the majority of public sector services. Therefore, confusion of terms is fairly constant, which once again shows the need for public finances literacy in the all areas of study programs for scholars. An authorized Lithuania’s tax burden usually comprises more than thirty percent from the country’s nominal gross domestic product in recent years. Nevertheless, political leaders and experts are suggesting the necessity of increasing Lithuania’s accumulated tax burden. However, there may be a fundamental mistake that social insurance contributions and compulsory health insurance contributions to the funds are not calculated into private individuals and legal entities tax burden. Fortunately the last year’s budget already considers social payments as a part of tax revenues. Unfortunately there are diminutive amount of signs in the continuity of Lithuania’s fiscal policy in the twenty first century.

Keywords: management; national finance; budget, taxation; sustainability; financial crisis

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1. Introduction

Finance and public money management have a historical concept of educational process and is one of the key economic and financial preparation in contemporary education. Money subject is possible with a number of complex aspects, both permanent change in the market economy and historical origin of money and monetary
politics. However, such knowledge is needful for the first grade university education. Financial education is relevant to each university’s undergraduate program. Incidentally, budget terminology and personal income taxation are known only from employment relationships concerning the mainly labour relations income or from the income that is comparable to labour relations income.

An achievable purpose of the paper is to show the importance of financial management education, including public perception of administration and financial aspects of public revenues’ mismanagement related to the government debt.

The object of the research is the financial (and partly economic) conceptualization of the sustainability in country’s fiscal policy comparing situation in Latvia and Lithuania with the debt management. In addition, the general misunderstanding about the fiscal policy and government’s finance management is discussed on the example of representatives from higher education institutions.

The objectives of the paper are as follows: to review financial and public finance development in the contemporary scientific literature; to display a necessity for the continuity of country’s fiscal policy started in the years of financial crisis, to demonstrate a necessity in deeper studies for students’ on public finance and public expenditure management.

One of the key tasks of the paper is to reveal how taxation, public spending and fiscal policy are perceived by the citizens. In addition, it also attempts to answer the questions about the financial and economic importance on financial education. Furthermore, the theoretical task of the paper is to show the size of government debt service and expenditure in Lithuania and Latvia, during the last crisis.

The research methods and methodological analysis used in the research were formal investigation and qualitative and quantitative research methods; the data was taken from Lithuanian, Latvian and the EU financial institutions. A modification of full-time and part-time students and cadets were used for informal surveys. It is also needful to remark that data are collected from teaching public finance management, studies and educational textbooks collected by the author for numerous years.

The continuity and sustainability of public finances is a sensual topic in the economic policy discussion currently. However, that happens as a result of the residual from former debt crises in the Europe and the long-term public spending pressure caused by the obstructive demographic change in more developed countries. This material analyses some of the conceptualizations that have been used to evaluate the public finance continuity in the case of Lithuania and Latvia. Also, some hypothetical criteria for sustainability is partially analysed. Moreover, the problem was analysed by a mode of literature compartmentalization. There is a weak agreement among economic professionals about the accurate theoretical standard for public finance continuity and in particular sustainability. Preferably each conceptualization to evaluate continuity and sustainability introduces its personal, sometimes differing, definitions. In this case study the strengths and weaknesses of each of the approaches and conditionally equate them with each other are examined. It was found that each formulation has its functions. Approaches should be viewed as an accumulative content. Accessibility of data and modelling resources, destinations of the analysis and other case-specific restrictions impact relative quality of the approaches in various situations. Nowadays continuity and sustainability of public finances is a well-timed theme in many modern countries. Uncertainty have been raised by several reviewers and analysts of state-supported finances in the Western countries where these finance are on a sustainable development shape. After the financial crisis of the first decade of the twenty first century the public debt of many countries has been on a sharp ascending route due to enforcement of various input and activity accumulation directed to financial field and the entirely system economy. An ascending liabilities integrated with long-term subjects similar to the sociological layer modification effects the symmetry between amount of people in the labour force and number of retired persons. That changes have advised fiscal agenda to study these cognitive factors sincere. Regrettably there are small indefinite quantity of signs in the continuity of Lithuania’s fiscal policy.
2. Financial Security Agenda in Educational Institutions

There is many misconception of the importance concerning financial education programs in higher education and other institutions. Especially important for the public finances is to understand their publicity in any case (Mandel, 2013). Moreover, during the totalitarian times, public finances were called “the state’s finances” because the tax burden understanding was the quite secondary topic to the dominating idea of the creation of “a new world”. Unhappily these provisions often remain in perceptions of public servants’ staff and even in the new generation concepts. At the same time the typical country’s economic, financial and administrative problems are almost always associated with the corruption and non-transparent situations in the public sector. Thus as it was mentioned these situations are probably the most common events in public finance management in the post-totalitarian countries. Therefore, finance and especially public finance literacy could be the one of keys solving country’s corruption perception.

In general, the concept of public finances in the education process starts with the tax and budget concepts. The municipal tax revenues and budget structure can be presented as a good example in which persons could see structure of public finance functioning and it should be likely the closest pattern to each citizen of a different country. Even more complicated is understanding of the State and National budgets or alternatively the hypothetical private enterprise finance. However, the biggest issue is how to finance public sector from the revenues of the taxable and the non-taxable inflows. In terms of financial education that is the more or less significant. At the same time person begins to understand the role of the state (and municipalities) in the economy. Then materializes admittance to the State’s economic regulation functions as a redistribution function, social function and the control function. Financial education is also important to the knowing of the State and local government’s revenue and expenditure structure, to the basic laws which provides a framework for the tax collection and the allocation of assignations.

The government debt services perception is frequently challenging. Since using the same concept of ‘taxes and fees for public sector directly received nothing, and charges for specific services (Brammer 2017). Therefore, confusion of terms is fairly constant, which once again shows the need for public finances literacy in the all areas of study programs for students or cadets. In this paper are moderately discussed issues about increased tax burden because of high price for the national debt provision. Nevertheless, political leaders and some experts are suggesting permanently the necessity of increasing Lithuania’s accumulated tax burden. However, there may be a fundamental mistake that social insurance contributions and compulsory health insurance contributions to the funds are not calculated into private individuals and legal entities tax burden. Fortunately, the last year’s budget already considers social payments as a part of tax revenues.

3. Government Debt during the Financial Crisis

The continuity and sustainability of public finance management could be represented by the example of the public debt policy in Lithuania and Latvia during the crisis of 2008-2011. These two different approaches can demonstrate how the national budget problems were solved in these two Baltic States. Considering the condition of the world economic crisis, the problem of the National debt management has grown to the big economic value. As the economic situation declines, discussions on the State debt become more than intense. The effective debt management is critical especially during crisis. The high government debt leads to the increase of the tax burden, to the growth of the state budget deficit, to the dropping of the state consumption level, to the reduction of public sector salaries and social security payments. The above has a negative impact on the state economy, which is being already weakened by the crisis, and, thus, is forcing the government to borrow more. The data on the gross national income and the government debt of the crisis period from 1995 till 2011 was taken. To evaluate the change of economic growth in the Baltic States quite useful can be a comparison of the national income in the years 1995-2011 (Table 1). The data on the gross national income and the government debt of the period from 1995 till 2011 was taken (Tables 2 and 4). The data on the gross national income (referred further as national income) for Latvia were retrieved from the official web page of the Central Statistical Bureau of Latvia (CSB, 2012). The data for Lithuania and Estonia were taken from the Eurostat database (Eurostat, 2013). The national income was taken in actual prices in millions of EUR (Sem-
jonova, 2013). However, the national income is total net earnings from the production of goods and services in a country over a period of time, usually one year, and consisting essentially of wages, salaries, rent, profits, and interest. Nevertheless there is an obvious decline in the national income in the all three Baltic countries in the year 2009 (Table 1).

**Table 1. National Income in Baltics, 2005-2013**

| Lithuania’s National Income in billions of Euro | Latvia’s National Income in billions of Euro | Estonia’s National Income in billions of Euro | Year |
|------------------------------------------------|---------------------------------------------|---------------------------------------------|------|
| 5.0                                            | 4.0                                         | 3.2                                         | 1995 |
| 6.3                                            | 4.8                                         | 3.8                                         | 1996 |
| 9.0                                            | 5.1                                         | 4.7                                         | 1997 |
| 10.0                                           | 5.8                                         | 5.0                                         | 1998 |
| 10.1                                           | 6.0                                         | 5.2                                         | 1999 |
| 12.5                                           | 6.3                                         | 5.7                                         | 2000 |
| 14.0                                           | 7.0                                         | 6.2                                         | 2001 |
| 15.0                                           | 7.6                                         | 7.1                                         | 2002 |
| 16.0                                           | 9.2                                         | 8.0                                         | 2003 |
| 17.9                                           | 10.0                                        | 9.0                                         | 2004 |
| 21.0                                           | 12.6                                        | 10.8                                        | 2005 |
| 24.0                                           | 15.3                                        | 12.5                                        | 2006 |
| 27.6                                           | 20.1                                        | 14.8                                        | 2007 |
| 31.8                                           | 22.5                                        | 15.1                                        | 2008 |
| 27.1                                           | 20.0                                        | 13.6                                        | 2009 |
| 26.9                                           | 18.5                                        | 13.8                                        | 2010 |
| 29.8                                           | 20.4                                        | 15.0                                        | 2011 |

**Source:** CSB, 2012, Eurostat, 2013

**Table 2. Lithuania’s Debt to GDP, 2008-2016, percent**

| Lithuania’s Debt to GDP, percent | Lithuania’s Debt to GDP percent change, year by year | Year |
|----------------------------------|----------------------------------------------------|------|
| 14.6                             | 0                                                  | 2008 |
| 28                               | 13.4                                               | 2009 |
| 36.2                             | 8.2                                                | 2010 |
| 37.2                             | 1                                                  | 2011 |
| 39.2                             | 2                                                  | 2012 |
| 38.7                             | -0.5                                               | 2013 |
| 40.5                             | 1.8                                                | 2014 |
| 42.7                             | 2.2                                                | 2015 |
| 40.2                             | -2.5                                               | 2016 |

**Source:** Trading Economics 2018 [Access through Internet]:
https://tradingeconomics.com/lithuania/government-debt-to-gdp and authors calculations

The Borrowing Policy in Lithuania was to choose private Financial Institutions when in Latvia it was the International Monetary Fund (IMF). However, credits annual interest rates in Lithuania were from four to nine percent versus Latvia’s interest rates from two to three percent.

Economical and financial policies during that crisis were independent in Lithuania (Table 2 and 4) versus regulated by the IMF in Latvia (Table 3 and 5). Outcomes of the independent fiscal policies in Lithuania in from years two thousand nine to two thousand ten were quite positive without significant new taxation on property and other private wealth. However new total taxes on property and on the all motor vehicles were introduced
in Latvia. A possible difference of the debt service expenditures in Lithuania from the total national public debt seventeen and a half billion euro is around eight hundred million euro in the year two thousand seventeenth. We can assume that the average annual interest rates are five percent - then annual interest payments could be around eight hundred million euro.

Table 3. Latvia’s Debt to GDP, 2008-2016, percent

| Latvia’s Debt to GDP, percent | Latvia’s Debt to GDP percent change, year by year | Year |
|-------------------------------|-------------------------------------------------|------|
| 18.7                         | 0                                               | 2008 |
| 36.6                         | 17.9                                            | 2009 |
| 47.4                         | 10.8                                            | 2010 |
| 42.8                         | -4.6                                            | 2011 |
| 41.3                         | -1.5                                            | 2012 |
| 39                            | -0.5                                            | 2013 |
| 40.9                         | -2.3                                            | 2014 |
| 36.5                         | -4.4                                            | 2015 |
| 40.1                         | 3.6                                             | 2016 |

Source: Trading Economics 2018 [Access through Internet]: https://tradingeconomics.com/latvia/government-debt-to-gdp and authors calculations

Table 4. Lithuania’s GDP and GDP growth changes before and after crisis 2005-2013

| Lithuania’s GDP at current market prices, in billion of Litas (Euro) | Lithuania’s GDP Growth/Decline in percent, year by year | Year |
|--------------------------------------------------------------------|--------------------------------------------------------|------|
| 76 (22)                                                            | 7.8                                                    | 2005 |
| 81.9 (23.7)                                                       | 7.8                                                    | 2006 |
| 90 (26.1)                                                          | 9.8                                                    | 2007 |
| 92.6 (26.8)                                                       | 2.9                                                    | 2008 |
| 78.9 (22.8)                                                       | -14.8                                                  | 2009 |
| 80 (23.2)                                                          | 1.4                                                    | 2010 |
| 84.6 (24.5)                                                       | 5.8                                                    | 2011 |
| 86.7 (25.1)                                                       | 2.5                                                    | 2012 |
| 89.9 (26)                                                          | 3.7                                                    | 2013 |

Source: European Country Risk, 2018 [Access through Internet]: https://www.euromoneycountryrisk.com/wiki/Lithuania#Economic-Overview; https://countryeconomy.com/gdp/lithuania

Table 5. Latvia’s GDP growth changes before and after crisis 2005-2011 (percent change year to year)

| Latvia’s GDP at current market prices billions of EURO | Latvia’s GDP Growth/Decline in percent quarter by quarter | Year |
|-------------------------------------------------------|----------------------------------------------------------|------|
| 11.85                                                 | 2.65                                                     | 2005 |
| 13.54                                                 | 2.95                                                     | 2006 |
| 15                                                     | 3.15                                                     | 2007 |
| 14.6                                                   | -2.875                                                   | 2008 |
| 11.25                                                  | -22.95                                                   | 2009 |
| 10.75                                                  | -3.9                                                     | 2010 |
| 11.44                                                  | 6.4                                                      | 2011 |

Source: CEIS, 2018, [Access through Internet: https://www.ceicdata.com/en/indicator/latvia/gdp-growth] and Author’s calculations.
A possible difference of the debt service expenditures in Lithuania for the same total national public debt seventeen and a half billion Euro (Lithuania government debt to GDP, 2018). If the average annual interest rates would be as in Latvia i.e., two and a half percent then annual interest payments could be around four hundred million Euro. Therefore, Lithuania’s public sector annually pays about four hundred million euro more for the independent financial (and economical) policy. Nevertheless, it is a really good to have an independent public finance policy. Unfortunately, the last decisions of Lithuania’s government show misunderstanding of the huge cost for country’s independent fiscal policy. There are serious discussions in Lithuania’s parliament and in the government to introduce the overall property tax and even more serious to introduce the total private car tax in 2018. However, the Lithuania’s government still declares that investors appreciate good tax environment in Lithuania.

Meanwhile Lithuania paid three billion and two hundred million euro in the eight years for its right not to introduce the total property tax and the total motor vehicle tax and other taxes permanently pushed by the IMF the World Bank and the European Commission.

However, if mentioned taxes will be introduced it indicates Lithuania move to the same point as Latvia was in the year 2009th. Therefore, three billion and two hundred million in the eight years (or three billion and six hundred million billion Euro in nine years) were overspend and credibility of the public servants probably could be decreased in the same amount. It is essential to mention that all these calculations are only approximations, however the main trends could be seen.

However, there is a little indication in the continuity of the Lithuania’s government fiscal policy. Moreover, it could be aforementioned that insufficient financial education probably led to the nowadays situation. A similar evaluation concerning the Lithuania’s government fiscal policy efficiency and the financial management sustainability believably can be applied.

4. Conclusions

The critical evaluations of the former “crisis time” Lithuania’s parliament and government concerning financial policy (especially for expensive state credits supporting the independent financial policy) can be also used for the present-day government. Additionally, such behaviour illustrates not adequate financial decisions because of so high price paid for not introducing IMF suggested taxes during the economic crisis, but after a few years coming back to the same taxes.

It is obvious that there is an essential need for a wider financial education and better understanding of public and private finance risks in the all levels of public administration managers as well as for elected parliament members. Moreover, there is an obvious correlation of public and private finance security with future considerations on the monetary policy risks. Eventually a demand for advanced financial education with the idea on transparency in budget and taxation could be evident. The clearness of public spending and procurement and budgetary policy are essential issues for every country.

As it has been discussed in a number of European Union countries the process of financial education and financial literacy has existent importance to the general civic education for improving the financial knowledge and skills paradigm. This is especially true in higher education institutions in connection with the relevant higher education and research programs. Frequently public finance management and a variety of educational programming interfaces separate programs are treated differently. In some schools of higher social scientists are still debating whether the financial management and, in particular public finance management can be seen as an important educational and scientific branches of study, but in recent decades, are becoming increasingly important provision that such a discussion does not lead to direct benefits. Based on the public finances, in Central and Eastern Europe, has been called the state’s finances, the model can develop their country’s patriots and those intolerant opaque phenomena. Very often, the best citizen’s participation in the governance of their country is the payment of taxes that are intended for the most important state functions. One way to determine
the country’s aggregated or consolidated taxes paid by natural and legal persons could be the tax burden rate. Since such data to the Central European statistics authority of the national statistical departments or offices, often reflecting the country’s approach to the calculation of the tax burden. Therefore, understanding of that tax burden can really encourage each citizen’s insistence for the transparency of public servants in their operations and budget planning processes. That also could be an outstanding financial literacy practice for a new generation seeking the country’s sustainability with greater involvement in political activities.

Unluckily there are very few marks in the continuity of Lithuania’s fiscal policy. Moreover, it could be said that not sufficient financial education led to the nowadays situation. Analogous evaluations on Lithuania’s Fiscal Policy Efficiency and the Fiscal Policy Sustainability could be used.

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