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The Concept of the Laffer Curve in Shaping Fiscal Policy in Selected Countries of Central and Eastern Europe

ABSTRACT

Objective: The objective of the paper is to analyse contemporary trends in fiscal policy of the European Union and to interpret them in light of the Laffer curve theory, with particular reference to selected post-transition economies of Central and Eastern Europe (Poland, the Czech Republic, Slovakia, Estonia and Latvia). The study seeks to identify the extent to which the logic of the Laffer curve is reflected in the design and outcomes of national tax systems.

Methodology: The paper is based on a critical review of the economic literature and a comparative analysis of tax policies in selected EU Member States. A qualitative approach has been adopted, combining theoretical reflection on the Laffer curve with a descriptive examination of tax-rate structures, fiscal reforms and budgetary outcomes. The analysis draws on both seminal and contemporary works on supply-side economics, the taxation of labour and capital and the evolution of fiscal governance in the European Union.

Findings: The study shows that, although the Laffer curve provides an intuitive framework for explaining the relationship between tax rates and budgetary revenues, its practical application in EU fiscal policy is limited. Post-transition economies of Central and Eastern Europe – most notably Estonia, Slovakia, and Latvia – have implemented reforms inspired by supply-side reasoning, yet the observed effects on revenues and growth have been heterogeneous and strongly conditioned by institutional quality, tax administration efficiency and the scale of the informal economy. In the case of Poland, the examples of VAT and CIT illustrate that the effectiveness of the tax system is determined not solely by statutory rates but also by the capacity of the fiscal apparatus to enforce compliance.

Value Added: The paper contributes to the ongoing debate on the usefulness of the Laffer curve as an analytical instrument by situating it in the specific context of post-transition EU economies. It highlights the tension between the simplifying assumptions of the model and the institutional, political, and social complexity of real fiscal systems, thereby offering a more nuanced interpretation of the relationship between tax rates and public revenues. From the perspective of intercultural management, the study demonstrates that the effectiveness of fiscal reforms inspired by the Laffer curve is strongly mediated by culturally embedded factors such as tax morale, the level of generalised trust, attitudes towards the state, and the prevailing organisational culture of public administration. These factors differ substantially across the analysed countries of Central and Eastern Europe, which helps to explain why identical fiscal instruments produce divergent outcomes in different national and cultural contexts.

Recommendations: Fiscal authorities in Central and Eastern Europe should treat the Laffer curve as a heuristic rather than an operational rule for setting tax rates. Decisions on the structure and level of taxation should take into account the quality of tax administration, the level of public trust, the structure of the economy and broader social objectives such as redistribution and social security. Further empirical research, including country-specific econometric studies, is recommended in order to better identify the location of particular tax systems along the Laffer curve.

Key words: Laffer curve, fiscal policy, tax policy, Central and Eastern Europe, European Union, tax morale, cultural determinants of taxation

JEL codes: E62, H20, H30, H61

Introduction

Fiscal policy is one of the key instruments through which the state influences the economy, performing allocative, redistributive and stabilization functions. In the specific context of the European Union, its character results from the division of competences between the national and supranational levels, necessitating a balance between national fiscal sovereignty and the coordination requirements of the Stability and Growth Pact. At the same time, economic theory provides analytical tools that allow for an assessment of the effectiveness of tax policies, among which the concept of the Laffer curve occupies a particularly prominent place.

The concept of the Laffer curve was developed and popularized as early as the 1970s thanks to the reflections proposed by the American economist Arthur Laffer. It is based on the intuitive premise that a continuous increase in taxes cannot lead to an analogous rise in budgetary revenues, because there exists a specific point beyond which a further increase in taxation produces the opposite effect – a decline in budgetary revenues from taxes collected. This means that maximum budgetary revenues can be achieved only at a particular point, beyond which the situation reverses and, consequently, negatively affects the scope for stimulating economic growth through fiscal instruments. While the model is often criticized for its simplicity, it remains a vital reference point for supply-side economics, particularly in economies seeking optimal development models.

The objective of this paper is to analyse contemporary trends in the fiscal policy of the European Union and to interpret them in light of the theory of the Laffer curve. Particular reference is made to selected post-transition economies of Central and Eastern Europe – Poland, the Czech Republic, Slovakia, Estonia and Latvia – which have served as unique testing grounds for reforms inspired by supply-side reasoning. The study seeks to identify the extent to which the logic of the Laffer curve is reflected in the design and outcomes of national tax systems.

The methodology adopted for this paper is based on a critical review of economic literature and a comparative analysis of tax policies in selected EU Member States. A qualitative approach is utilized, combining theoretical reflection

on the Laffer curve with a descriptive examination of tax-rate structures, fiscal reforms and budgetary outcomes. The analysis draws on both seminal works of supply-side economics and contemporary studies regarding the taxation of labour and capital.

The value added of this study lies in situating the theoretical model within the specific institutional and cultural context of the CEE region. From the perspective of intercultural management, the paper demonstrates that the effectiveness of fiscal reforms is strongly mediated by factors such as tax morale, the level of generalized trust in state institutions and the prevailing organizational culture of public administration. Consequently, the study offers a more nuanced interpretation of the relationship between tax rates and public revenues, highlighting the tension between simplifying model assumptions and the social complexity of real fiscal systems.

Literature Review and Research Gap

The scholarly debate surrounding the Laffer curve can be organised into three relatively distinct, though increasingly overlapping, strands of literature. The first and oldest strand is rooted in supply-side economics and concerns the existence and location of a revenue-maximising tax rate. Building on the original intuition popularised by Laffer (2004), this literature has sought to estimate the elasticity of taxable income and to identify the point at which rate increases become self-defeating. Empirical contributions in this tradition – most notably the elasticity-of-taxable-income research initiated by Feldstein (1995) and synthesised by Saez et al. (2012) – suggest that revenue-maximising rates are highly sensitive to the breadth of the tax base, the availability of avoidance opportunities and the time horizon considered. The methodological lesson emerging from this body of work is that the Laffer curve is not a single, stable schedule but a family of context-dependent relationships, a conclusion that resonates with the dynamic and multi-peaked interpretations advanced by Cichocki and Kokoszcyński (2016).

The second strand reframes the revenue question as a problem of institutional and administrative capacity rather than statutory rates. Within this perspective, the effective position of an economy on the Laffer curve is determined less by the nominal burden than by the state's ability to enforce compliance and to constrain the informal economy. The work of Schneider and Enste (2000) on the shadow economy, together with the broader institutional-economics tradition associated with Acemoglu and Robinson (2012), demonstrates that weak enforcement, regulatory complexity and low state capacity systematically depress realised revenues below their theoretical maximum. This literature provides the conceptual foundation for the increasingly accepted claim – central to the present paper – that improvements in tax administration can produce an “upward shift” of the Laffer curve without any change in rates.

The third and most recent strand, which is of particular relevance to this journal, locates the determinants of tax compliance in the behavioural and cultural sphere. Research on tax morale – understood as the intrinsic motivation to pay taxes – has shown that compliance cannot be explained by deterrence and economic self-interest alone. The seminal contributions of Torgler (2007) and the behavioural framework proposed by Alm and Torgler (2006) establish that voluntary compliance is strongly correlated with generalised trust, perceived procedural fairness and the legitimacy of public institutions. These findings connect directly to the cross-cultural management literature, in particular to Hofstede's (2001) dimensions of power distance and individualism – collectivism, and to the conceptualisation of generalised trust developed in comparative political economy. Taken together, this strand implies that two economies with identical statutory rates and comparable administrative capacity may nonetheless occupy markedly different positions on the Laffer curve, simply because their taxpayers are embedded in different cultural settings.

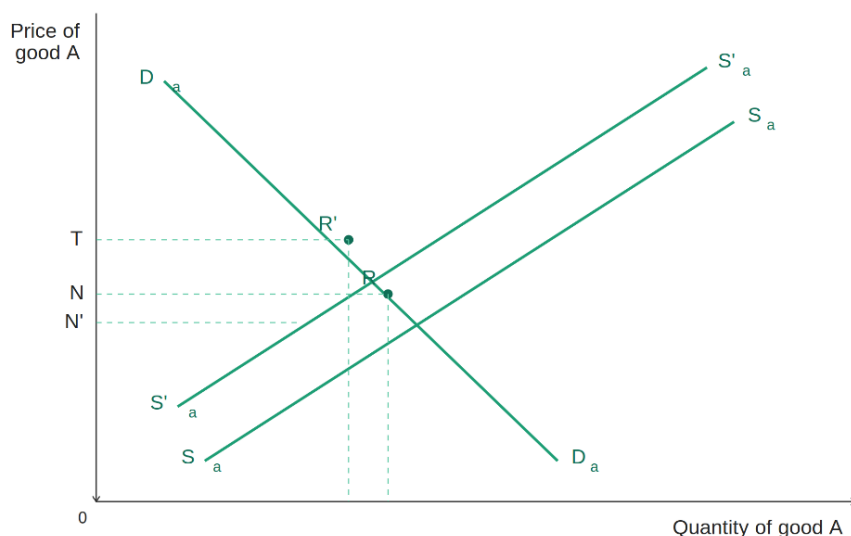
Reviewing these three strands reveals a clear research gap. The supply-side and the institutional literatures are well developed but largely culture-blind, treating taxpayers as homogeneous rational agents or as subjects of administrative control. The tax-morale and cross-cultural literatures, by contrast, are rich in behavioural insight but have rarely been integrated with the macroeconomic logic of the Laffer curve, and they have seldom been applied systematically to

the post-transition economies of Central and Eastern Europe. These economies constitute a particularly informative setting, because they implemented broadly similar, supply-side-inspired reforms – flat taxes, simplified bases and distributed-profit corporate taxation – within a single historical window, yet against the background of divergent levels of institutional trust and civic culture inherited from the period of central planning. The present paper addresses this gap by interpreting the Laffer curve not as an isolated macroeconomic schedule but as a culturally mediated relationship, and by using the comparative experience of five CEE countries to illustrate how cultural determinants shape the divergent outcomes of formally identical fiscal instruments.

Theoretical Outline of the Laffer Curve

The Laffer curve formulates the view that the private sector uses resources redirected as a consequence of tax-reduction tendencies more effectively than the public sector (Dankowska, 2010). This is accompanied by a reduction in public expenditure and an increase in production in the economy. This, in turn, is expected to translate into economic growth and a higher tax base. Taking the Laffer curve into account, the position according to which even at the moment of a decline in the average tax rate it is possible to achieve increased budgetary revenues remains justified. Proponents of supply-side economics additionally argue that an increase in output translates into higher economic activity of the population, since people receive more attractive remuneration for their work. Tax reductions introduced are therefore compensated by an expansion of the tax base under conditions of low unemployment and high economic activity of employed persons (Pasternak-Malicka, 2014). The Laffer curve is an economic concept that allows a better understanding of how the effects of imposing tax burdens are shaped in terms of their impact on the demand for and supply of particular goods (for a broader discussion see: Miravete et al., 2018). Taxes affect changes in the supply of and demand for particular goods on the market (see Figure 1).

Figure 1. Economic Effects of Imposing Tax Burdens in the Context of Their Impact on the Demand–Supply Forces of an Exemplary Good



Source: Own elaboration based on Miravete et al., 2018.

In interpreting the figure, it should be emphasized that the consequences of imposing fiscal burdens ought to be considered in terms of their impact on the demand and supply side of the market. This implies the influence of taxes on the economic decisions of consumers. The curve D_a represents the demand for the exemplary good A, while the curve S_a represents the market availability, that is the supply of that good. Equilibrium is reached at the point of intersection of the curves, that is at point R. This allows for an explanation of the price at which the producer sells the good and which the consumer is willing to pay for it. This is, however, the net price, excluding the tax rate. In the event of good A being subjected to a higher tax rate (which is represented by the change indicated on segment NT), there is an upward shift of the supply curve, because a higher tax rate implies the need to increase the price of the good. This is automatically followed by a reduction in the demand for that good. The change in

price is illustrated by segment ON' . The final economic effect is not only a reduction in the demand for good A but also in its supply. At the same time, the point of market equilibrium shifts towards point R' . The consequence of raising the tax rate is, above all, a decrease in revenues from the sale of the good as a result of a weakening of demand and a fall in its net price (in contrast to the rise in its gross price). The literature on the subject indicates that this means a negative impact of continuously increased taxes in terms of their effect on the economic behaviour of producers and consumers, in the classical interpretation of the Laffer curve (Gwiazdowski, 2017).

The concept of the Laffer curve is subject to certain criticism and limitations when it comes to explaining the relationship between changes in tax rates and the level of budgetary revenues from taxes collected. The basic objection concerns the simple, symmetrical graphical presentation of the curve itself. In fact, no circumstances exist that would explain why the curve takes precisely this shape. In the model formulation of the Laffer curve, the application of two extreme tax rates – 0% and 100% – results in exactly the same tax revenues, namely zero. Adopting symmetry as an axiom in the concept gives rise to certain practical problems. It inclines interpreters towards the dogmatic conclusion that raising or lowering taxes represents one of two strategies from which the state chooses one within a given, often not precisely specified, time horizon. Moreover, supporters of the Laffer curve usually arrive at the conclusion that there is a considerable margin for potentially reducing the applicable tax rate (all the more so the closer one moves towards the inflection point of the curve) (Piekarz, 2019).

It is also worth noting that in the interpretation of the Laffer curve, a temporary decline in tax revenues is illustrated by crossing the inflection point of the curve. This leads to excessive simplification and disregard for more nuanced economic and legal-tax factors, such as those resulting from a deteriorating economic situation, temporary difficulties of firms in carrying out investments burdened with VAT, permissible tax deferral deadlines, and the like. Similar simplifications make it more difficult to obtain an accurate picture of the situation regarding a temporary decline in revenues to the state budget or to the budgets of territorial self-government units. Critics of the concept under analysis

explain that in practical terms the Laffer curve may differ significantly from its textbook counterpart. In the scholarly literature, it is additionally argued that the curve itself may have more than one maximum.

Critics of the concept of the Laffer curve use the argument that the conclusion stemming from it – namely, the need to lower tax rates in order to maximize tax revenues – applies, but only under appropriate macroeconomic conditions. Accordingly, the view has been popularized that the rationale for reducing the tax rate is strictly dependent on whether the rate currently in force exceeds the so-called saturation point on the curve. This is, in other words, the optimal value of the tax rate. Estimating such a value is a necessary operation in order to be able to confirm the relationship between reducing the tax rate and an increase in tax revenues to the state budget. In the critique of the Laffer curve, there also appears the argument that a tax cut is not necessarily directly linked to the effect of an increase in tax revenues to the state budget. It may equally well be explained by the results of an improving economic situation or by effectiveness in sealing the tax system. Another line of criticism is the argument that the reactions of taxpayers themselves are most often not sufficiently significant in practice to explain the relationship between a change in the tax rate and the level of tax revenues (Przybylska-Mazur, 2017).

In the literature on the subject, it is indicated that the Laffer curve has a dynamic character, which is particularly visible in the case of developing economies. This implies a continuous shift of the curve to the right, associated with broadening the scope for possible tax increases without detriment to budgetary revenues. The theoretical presentation of the curve, on the other hand, has a static character and does not reflect these nuances. Moreover, it is incorrect to explain that the inflection point of the curve as the maximum tax rate for the optimization of budgetary revenues simultaneously means the best conditions for raising the standard of living of the population. The optimal point on the Laffer curve refers to the maximization of government or self-government revenues rather than to optimal conditions for capital accumulation. It is the latter that is regarded as the key factor influencing the rise in the standard of living of the population.

The Laffer curve functions as a simple, static single-sector model, taking into account only two factors of production, that is labour and capital. The single-sectoral nature of the concept analysed causes economic activity to be treated as a whole, without distinguishing between groups of taxpayers, dynamics in different branches of the economy or flexibility in shaping changes in tax rates. This makes it a general and simplified model that may constitute an interesting point of departure but should not be regarded as the final solution to the dilemma concerning the level of tax rates in a specific country. Moreover, the interpretation of the Laffer curve implies treating taxes as public-law obligations performing exclusively one function, namely generating budgetary revenues in connection with the taxation of income resulting from the creation of products in the economy. In reality, the functions of taxes are more diverse, as is the relationship between budgetary revenues and the incentives and restrictions imposed by the state. The Laffer curve is based on the assumption that the change in the level of public revenues is determined by two factors, namely the level of taxation of capital and of labour. Contemporary authors regard such a stance as excessively simplified (Cichocki & Kokoszczyński, 2016).

The critique of the concept is based on additional premises. Mention should be made of the difficulties in empirically determining the optimal tax rate, regardless of the structure of the economy but also under specific political and economic conditions. Doubts also arise in the interpretation of historical data, at least when long-term trends in budgetary revenues are analysed. The concept is furthermore based on simplified assumptions explaining the behaviour of taxpayers themselves. In practice, such behaviour is more unpredictable and sometimes irrational, which is in line with behavioural economics. The model also disregards such important elements determining budgetary revenues as the degree of bureaucracy and the quality of activities of the tax administration, the business cycle or structural differences when comparing particular economies (Piekarz, 2019).

An additional – and, in the authors' view, frequently underestimated – limitation of the Laffer curve concerns its implicit assumption of cultural homogeneity among taxpayers. The model presupposes a universal rationality of economic agents, whereas research on tax morale and fiscal psychology demonstrates that

the willingness to pay taxes, the perception of fairness of the tax system and the propensity to engage in tax avoidance or evasion vary considerably across cultures. From the perspective of intercultural management, these differences can be interpreted through the lens of well-established frameworks describing cross-cultural variation – such as the level of generalised trust in public institutions, the degree of power distance or individualism versus collectivism. Societies characterised by high trust in the state and a developed civic culture tend to exhibit higher voluntary tax compliance, which effectively shifts the Laffer curve upwards. Conversely, in societies marked by low trust, a large informal sector and limited perceived legitimacy of the state, even moderate tax rates may produce revenues significantly below the theoretical maximum. This cultural dimension is of particular importance in the context of Central and Eastern Europe, where decades of centrally planned economy shaped specific attitudes towards the state, taxation and public authority – attitudes that continue to influence the effectiveness of fiscal policy in the post-transition period.

Recognising the cultural embeddedness of fiscal behaviour has direct implications for the management of tax systems. Tax administration is not a purely technical activity; it is a domain in which the organisational culture of public institutions interacts with the civic culture of taxpayers. Comparative analyses of fiscal reforms in culturally diverse environments indicate that the same instrument – for example a flat tax or a deferred corporate income tax – may yield markedly different outcomes depending on the intercultural context of its implementation. This observation provides a bridge between the macroeconomic logic of the Laffer curve and the microfoundations of taxpayer behaviour rooted in culture, and it justifies the inclusion of cross-cultural considerations in the assessment of fiscal policy in the European Union.

European Trends in the Shaping of Fiscal Policy

Fiscal policy in the European Union (EU) remains within the competence of the Member States; however, it is subject to coordination at the Community level. A key role is played here by the Stability and Growth Pact, which defines the permissible levels of the budget deficit (3% of GDP) and of public debt (60% of GDP). These mechanisms were reinforced after the financial crisis of 2008–2012, when the weaknesses of fiscal governance in the euro area became apparent. In recent years, however, an evolution of the approach has been visible. In response to the COVID-19 pandemic and to structural challenges such as the energy transition and digitization, the EU has permitted greater fiscal flexibility. The temporary suspension of fiscal rules and the launching of the NextGenerationEU fund are examples of a departure from a restrictive austerity policy towards an active stabilization policy.

Contemporary tendencies in EU fiscal policy can be grouped into several key areas. First, a shift is observed from austerity policy towards a policy supporting economic growth. This means greater emphasis on public investment, particularly in the areas of innovation, green energy and infrastructure. Second, the importance of a structural approach to public finances is growing. Instead of focusing exclusively on the short-term level of the deficit, attention is being paid to the quality of expenditures and their impact on the growth potential of the economy. Third, the EU is intensifying its efforts to harmonize tax systems and limit tax avoidance. The introduction of a minimum corporate tax and the initiatives counteracting base erosion and profit shifting (BEPS) attest to the growing role of international cooperation. Fourth, fiscal oversight mechanisms are being developed, such as the European Semester, which enables ongoing monitoring of the budgetary policies of the Member States (Stiglitz, 2015).

Analysing EU fiscal policy through the lens of the Laffer curve, several significant relationships can be indicated. Many Member States are characterised by a relatively high level of taxation, particularly of labour taxes. This may suggest that some economies are approaching the 'right-hand side' of the Laffer curve,

where further tax increases lead to a decline in revenues. Moreover, EU efforts aimed at limiting tax avoidance can be interpreted as an attempt to increase the efficiency of the tax system without the need to raise rates (Laffer, 2004). In this sense, such a policy may lead to a 'shift of the Laffer curve upwards', that is, to an increase in revenues at a given level of taxation. It is worth emphasizing that tax harmonization in the EU limits tax competition between states. On the one hand, this fosters the stability of budgetary revenues; on the other, it may hinder the adjustment of tax systems to specific national conditions, which is important from the standpoint of Laffer's theory. Contemporary EU fiscal policy places greater emphasis on the expenditure side than on the revenue side. This means that the optimization of tax rates is not the sole, or even the main, objective of fiscal policy.

Despite its popularity, the Laffer curve has limited applicability in the analysis of EU fiscal policy. This results from several reasons. The theory simplifies economic reality, neglecting many factors such as the structure of the tax system, tax progression, or institutional differences between countries. It should be noted that EU fiscal policy also pursues social goals, such as income redistribution or ensuring social security, which are not taken into account in the Laffer model. Furthermore, economic integration within the EU means that fiscal decisions of one country affect other states, which additionally complicates the analysis (Krugman & Obstfeld, 2018).

A crucial element shaping contemporary EU fiscal trends is the implementation of the reformed economic governance framework, which shifted the focus from uniform, one-size-fits-all austerity measures to country-specific medium-term fiscal-structural plans. This evolution acknowledges that the 'optimal' position on the Laffer curve is highly dependent on a nation's specific debt sustainability and investment needs, particularly regarding the 'Twin Transition' (green and digital). Furthermore, the increasing role of environmental taxes (carbon pricing) and the digital services tax represents a structural shift in how EU Member States define their tax bases. From the perspective of the Laffer curve, these new forms of taxation introduce additional complexity, as their primary goal is often behavioural change (e.g. reducing emissions) rather than pure revenue

maximization, potentially creating a ‘double dividend’ but also complicating the traditional trade-off between tax rates and budgetary inflows.

Furthermore, a significant trend in the European fiscal landscape is the rapid digital transformation of tax administrations, often referred to as ‘Tax Administration 3.0’. The implementation of real-time reporting systems, AI-driven audit selection, and mandatory e-invoicing across the EU has fundamentally altered the practical relevance of the Laffer curve. By reducing the compliance gap and limiting the scope of the informal economy, these technological advancements effectively allow Member States to maintain or even increase fiscal revenues without raising statutory tax rates. This phenomenon can be interpreted as an ‘upward shift’ of the Laffer curve, where the efficiency of the fiscal apparatus, rather than the tax rate itself, becomes the primary determinant of budgetary success. Additionally, in the post-2024 era, EU fiscal policy has increasingly focused on ‘fiscal resilience’, prioritizing the ability of national budgets to absorb external shocks (such as energy price volatility) while maintaining long-term investment capacity. This shift suggests that contemporary European fiscal policy is moving away from the static optimization of rates towards a dynamic management of the tax base and administrative efficiency.

The Polish Tax System in Light of the Laffer Curve

The Polish tax system is mixed in character and encompasses direct taxes, such as personal income tax (PIT) and corporate income tax (CIT), as well as indirect taxes, primarily the tax on goods and services (VAT). Each of these taxes may be located at a different point on the Laffer curve, which means that there is no single universal answer to the question of the optimal level of taxation. Analysing VAT, which constitutes the main source of budgetary revenues in Poland, it is worth paying attention to the increase in the standard rate to 23% in 2011. Initially, this led to an increase in budgetary revenues; however, in subsequent years the problem of the growing VAT gap emerged, resulting, among others, from tax fraud and tax avoidance. Only the sealing of the system in the second half of the decade led to a significant increase in revenues. In the context of the Laffer curve, this can be interpreted as a signal that the level of the tax rate

alone does not determine revenues – equally important is the effectiveness of the tax administration.

Personal income tax (PIT) in Poland is characterised by a progressive tax scale (12% and 32%) and by a relatively high tax wedge, that is the difference between the cost of employing a worker for the employer and their net remuneration. A high tax wedge may limit the propensity to take up legal work and foster the development of unregistered economic activity. From the perspective of the Laffer curve, it can be argued that for some taxpayers the effective taxation of labour may be approaching a level at which further increases would bring diminishing budgetary revenues (Raczkowski et al., 2020).

The situation is different in the case of CIT. The introduction of a reduced rate of 9% for small taxpayers was aimed at increasing the number of enterprises and encouraging the formalization of economic activity. In this case, a mechanism consistent with the Laffer curve can be observed: a reduction of the tax rate may lead to a broadening of the tax base and, consequently, to an increase in state revenues in the longer term.

It should be emphasized, however, that the Laffer curve has a model character and simplifies economic reality. In practice, tax revenues are affected not only by rates but also by such factors as the level of economic development, the structure of the labour market, the efficiency of public administration, and the tax culture of society. Therefore, attempts to unambiguously determine whether Poland is located on the ‘left’ or the ‘right’ side of the curve are burdened with considerable uncertainty. To summarise, the Polish tax system provides examples both confirming and undermining the intuition that follows from the Laffer curve. In some areas, such as CIT for small firms, a reduction of rates may foster an increase in revenues through an increase in economic activity. In others, such as VAT or the taxation of labour, the key role is played not only by the rates themselves, but also by the effectiveness of their enforcement and by the reactions of taxpayers. Ultimately, the Laffer curve remains a useful analytical tool, but its application in economic policy requires caution and consideration of a broad institutional context.

The Tax System of the Czech Republic

The tax system of the Czech Republic is frequently cited as an example of a relatively simple and predictable fiscal model in Central Europe. In the context of economic theories such as the Laffer curve, it offers an interesting field for analysing the relationship between the level of tax rates and the budgetary revenues of the state. The Czech tax system is based on relatively moderate rates and on a transparent structure. Personal income tax has a linear character (with elements of progression through the so-called solidarity surcharge), and the basic rate is 15%, with a higher rate for the highest earners. Corporate income tax is maintained at the level of 19%, which is competitive on a European scale. Moreover, the VAT system comprises three rates: a standard rate and two reduced rates (Musiałkiewicz, 2024).

From the perspective of the Laffer curve, Czech tax policy seems to aim at maintaining rates at a level that does not excessively inhibit economic activity. Relatively low income taxes may foster foreign investment and increase the motivation to work and to undertake entrepreneurial activity. As a result, the tax base is broadened, which may compensate for lower tax rates. It is worth noting that over the recent decades the Czech Republic has achieved stable economic growth and a relatively low level of unemployment, which indirectly confirms the effectiveness of its fiscal model. This does not mean, however, that the system is ideal. Critics point to limited tax progression and potential income inequalities. In addition, budgetary revenues depend not only on tax rates but also on the effectiveness of the tax administration, on the structure of the economy, and on global economic conditions. Analysing the Czech tax system through the lens of the Laffer curve, it can be stated that this country seeks to maintain a balance between fiscal effectiveness and economic incentives. There is, however, no unequivocal empirical evidence concerning the exact location of the point of maximum revenues on the Laffer curve, which means that tax policy largely remains a matter of pragmatic governmental decisions.

To summarise, the Czech tax system constitutes an example of a moderate approach to taxation, which is consistent with the general assumptions of the Laffer curve. Maintaining relatively low and stable rates may foster economic

growth and ensure stable budgetary revenues, although the effectiveness of this model depends on numerous factors that go beyond the theory itself.

The Slovak Tax System

The Slovak tax system is often cited as an example of a relatively simple and competitive fiscal model in Central Europe. In the context of the Laffer curve, it constitutes an interesting case study, showing how tax policy may affect state revenues, economic activity and the behaviour of taxpayers. At the beginning of the twenty-first century, Slovakia introduced a series of tax reforms aimed at simplifying the system and increasing its transparency. The best-known change was the introduction of the so-called flat tax – a uniform rate of income tax for both natural persons and enterprises. This reform was intended to encourage investment, reduce tax avoidance and stimulate economic growth.

The Slovak reform was largely inspired by precisely this idea. The reduction and simplification of tax rates was expected to shift the economy towards a more optimal point on the Laffer curve. In practice, this led to an increase in the country's attractiveness to foreign investors and to a reduction of the shadow economy. In the first years after the reform, an increase in budgetary revenues and an acceleration of economic growth were recorded, which was frequently interpreted as a confirmation of the theory. This does not mean, however, that the Slovak system is without flaws. Over time, critical voices appeared, pointing to growing social inequalities and to the limited progressivity of the tax system. In response to these problems, the government partially departed from a pure flat tax, introducing more differentiated rates. This shows that the practical application of the Laffer curve requires taking into account not only economic effectiveness but also social and political aspects (Musiałkiewicz, 2024).

To summarise, the Slovak tax system constitutes an interesting example of the use of economic theories in practice. Reforms inspired by the Laffer curve contributed to economic growth and to an increase in budgetary revenues, but at the same time revealed the limitations of this concept. Ultimately, an effective tax policy must find a balance between efficiency and social justice.

The Estonian Tax System

The Estonian tax system is frequently cited in the context of the Laffer curve, as it provides an interesting example of an approach that seeks to reconcile relatively low and simple taxes with a high collection of state revenues. After regaining independence in the 1990s, Estonia opted for a radical simplification of the tax system. A linear income tax was introduced, together with a unique solution concerning the taxation of enterprises – the profits of firms are not taxed at the moment they are generated but only when they are distributed (for example as dividends). Such a model encourages the reinvestment of capital and supports economic development. In addition, the Estonian system is characterized by a high degree of transparency and widespread digitization, which reduces administrative costs and limits the scale of tax avoidance (Safjan, 2024).

The Estonian tax system can be interpreted as a practical application of the ideas underlying the Laffer curve. Maintaining moderate tax rates and simplifying regulations make taxpayers more inclined to comply with them. As a result, the tax base is broader and revenues are stable, despite relatively low fiscal burdens. Moreover, incentives to reinvest profits increase economic activity, which indirectly translates into higher state revenues in the long run. This does not mean, however, that the Estonian model is universal and directly transferable to every country. Its effectiveness also results from factors such as a high level of social trust, an efficient administration and consistent economic policy. Nevertheless, it constitutes an interesting example of how an appropriately designed tax system may approach the optimal point described by the Laffer curve.

To summarise, the Estonian tax system demonstrates that simplicity, transparency and moderate rates may foster both economic development and stable budgetary revenues. In the context of the Laffer curve, it constitutes evidence that lower taxes do not always imply lower revenues – provided that they are accompanied by a well-designed structure of the fiscal system.

The Latvian Tax System

As one of the post-transition economies of Central and Eastern Europe, after regaining independence in 1991 Latvia opted for a relatively simple and transparent tax system. Among other changes, a linear personal income tax and moderate rates of corporate income tax were introduced. Of particular importance was the 2018 reform, which changed the method of taxation of enterprises – retained profits ceased to be taxed, and the tax was levied only at the moment of their distribution (for example in the form of dividends). Such a construction of the tax system may be interpreted as an attempt to shift the economy towards a more efficient point on the Laffer curve. The reduction of the effective taxation of reinvested profits was intended to encourage enterprises to increase investment, which in the longer run should lead to economic growth and, consequently, to an increase in the tax base (Musiałkiewicz, 2024).

The empirical effects of these reforms are complex. On the one hand, Latvia recorded an increase in investment and an improvement in the competitiveness of the economy. A simple tax system also fosters transparency and reduces administrative costs. On the other hand, budgetary revenues may have been lower in the short term, which is a typical challenge associated with policies inspired by the Laffer curve – the benefits often appear only in a longer time horizon. An important aspect is also the question of the elasticity of labour and capital supply. The Laffer curve assumes that the reactions of economic entities to tax changes are significant. In the case of Latvia, as a small and open economy, capital mobility is high, which means that tax competitiveness is of particular importance. Excessively high taxes could lead to an outflow of investment to other countries of the region.

To summarise, the Latvian tax system constitutes an interesting example of the practical application of ideas akin to the concept of the Laffer curve. Through the reduction of effective taxation and the simplification of the system, the state sought to increase economic activity and to broaden the tax base. Although the effects of such measures are not immediate and require long-term evaluation, the case of Latvia shows that an appropriate adjustment of the level of taxation may foster both economic growth and the stability of public finances.

Conclusions

The Laffer curve is a concept suggesting that there exists an optimal level of taxation at which state revenues are maximized. In the countries of Central and Eastern Europe, after the systemic transformation, it was often a point of reference in designing fiscal reforms. Following the collapse of centrally planned economies, many countries of the region – including Poland, the Czech Republic, Slovakia, Latvia and Estonia – sought to simplify their tax systems and to stimulate economic activity. One of the most visible examples was the introduction of flat taxes. Estonia, already in the 1990s, implemented a simple system with a uniform PIT rate, which was intended to increase tax collection and the transparency of the system. Similar reforms were subsequently adopted by Slovakia (with the reform of 2004). In practice, however, the use of the Laffer curve had a more heuristic than strict character. Governments assumed that excessively high taxes discourage work and investment, while tax reductions might broaden the tax base and, in the longer term, stabilise revenues. The effects were mixed. In some countries (for example Estonia) the simplification of the system indeed improved compliance and growth dynamics. In other cases, it led in the short term to a decline in budgetary revenues and to the necessity of fiscal corrections.

It is worth emphasizing that the Laffer curve does not indicate a specific level of the optimal rate – this depends on the structure of the economy and on institutions. In the countries of the Central and Eastern European region, factors such as the effectiveness of the tax administration, the level of trust in the state, or the scale of the informal economy were of greater importance than the level of the rates themselves.

The comparative analysis of the five post-transition economies examined in this paper – Poland, the Czech Republic, Slovakia, Estonia and Latvia – clearly shows that identical or analogous fiscal instruments produce markedly different outcomes depending on the cultural and institutional context of their implementation. The Estonian case, in particular, illustrates how a combination of high social trust, a transparent and digitalised administration and a culture of civic cooperation may bring the tax system closer to the optimal point described by the Laffer curve. In turn, the more modest or uneven effects of analogous reforms in other

countries of the region can be attributed, at least in part, to differences in tax morale, attitudes towards the state and the organisational culture of fiscal authorities. From the perspective of intercultural management, this leads to a practical conclusion: the transfer of fiscal ‘best practices’ between countries cannot be treated as a purely technical operation. Effective policy design requires an understanding of the cultural determinants shaping the behaviour of both taxpayers and public administration, as well as the capacity to adapt instruments to the intercultural specificity of a given economy. In this sense, the Laffer curve – although originally formulated as a macroeconomic concept – is most usefully interpreted as part of a broader, culturally sensitive framework of fiscal governance.

To summarise, in Central and Eastern Europe, the concept of the Laffer curve was an important element in justifying pro-market reforms and the simplification of taxes, but its application had a political-practical rather than a precisely empirical character. The fiscal policy of the European Union, in turn, is evolving towards greater flexibility, coordination and orientation towards long-term economic growth. Although the Laffer curve provides a useful tool for analysing the relationship between taxation and budgetary revenues, its importance in practice is limited. Contemporary EU fiscal policy takes into account a broader economic and social context in which fiscal effectiveness constitutes only one of many elements of decision-making.

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eISSN2543-831X



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