THE ADEQUACY OF ROMANIAN FISCAL POLICY TO CURRENT CONDITIONS

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This paper aims to make a review of the Romanian fiscal policy appropriateness to the new conditions imposed by socio-economic catching separating us from the developed countries of the European Union. In the last three decades we are witnessing due to changes in national economies trade liberalization in the context of globalization. The analysis deals with issues of budget deficits, which are the main cause of sovereign debt crisis in Europe and solutions to rebalance the budget. The Keynesian and the multiplier mechanism solution is considered in economy, proposed by using public savings spending. The automatic stabilizers and their degree of efficiency in emerging economies solution is also considered. Finally, we show an analysis of tax rate systems used in three of the most developed EU countries compared with the tax rate used in Romania. Although facing large state budget deficits, Romania, in years of economic crisis, has made spending mitigation measures, which led to the contraction of consumption, the measures having a pro-cyclical nature. The analysis is considering a restructuring of the tax system in order to rearrange the tax burden as a means of mitigating the economic crisis.
Keywords: globalization, fiscal policy, budget deficits, tax rates
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I. Introduction

The last decade has seen many changes in tax policy that deserve consideration when trying to do an analysis of the current situation and to trace some lines of development for the future. Changes due to globalization, a process in which all countries are involved, voluntarily or not, affect Romania because of the late start its felt in this race. Romania joined the EU on January 1, 2007, the event marking a new beginning for practical economic life but its membership was deeply marked by the largely obsolete industrial base and the new economic model that has proven to be inadequate for the country's needs.

The road for the EU membership mostly began in 2000 when Romania managed to get out of the recession after it had entered the market economy. Domestic consumption and investment have fueled strong growth in GDP by the cost of a current account imbalance. Earnings growth has stimulated the creation of a middle class and contributed significantly to combating poverty but also in rising inflation, especially between 2007-2008, driven by strong growth in consumption and wages, accompanied by a corresponding increase in labor productivity. Increased energy costs and bureaucracy and corruption have continued to exist in the Romanian business environment. On the other hand, a relaxation of fiscal discipline, superimposed on the global financial crisis has reduced GDP by about 7% in 2009, prompting a contracting emergency financial assistance package of 20 billion euro to IMF and European Union together with the obligation to take drastic austerity measures, which led to another Romanian GDP contraction of 1.6% in 2010. 2011 brought an increase in the Romanian economy, GDP is nearly 2.5% higher than the previous year due to rising exports and agricultural production increased by 11.3%, but in a deflationary environment due to a request internal weak. This led to signing a stand-by detention on 2 years, from Romania, IMF (about 3.5 billion), EU (1.4 billion) and World Bank (1.15 billion euro) to ensure that the objectives of fiscal policy, structural reforms and financial sector stability. This is a short course on the way of the Romanian economy integration into the European family.

This paper aims to analyze the adequacy of current fiscal policy decisions taken in Romania in recent years, manifested by developments at European level, while targeting a broader context, that of globalization. Starting such a study is important as the financial crisis turned into an economic one, it changed the old paradigm that governed fiscal policy. We are witnessing the last three decades due to changes in national economies trade liberalization in the context of increasing globalization of markets. But free trade is not always fair, and therefore we must study fiscal mechanisms leading to the international economic system in which the development and modernization of poor countries becomes a constant.

II. Theoretical approaches on fiscal policy adjustment mechanisms

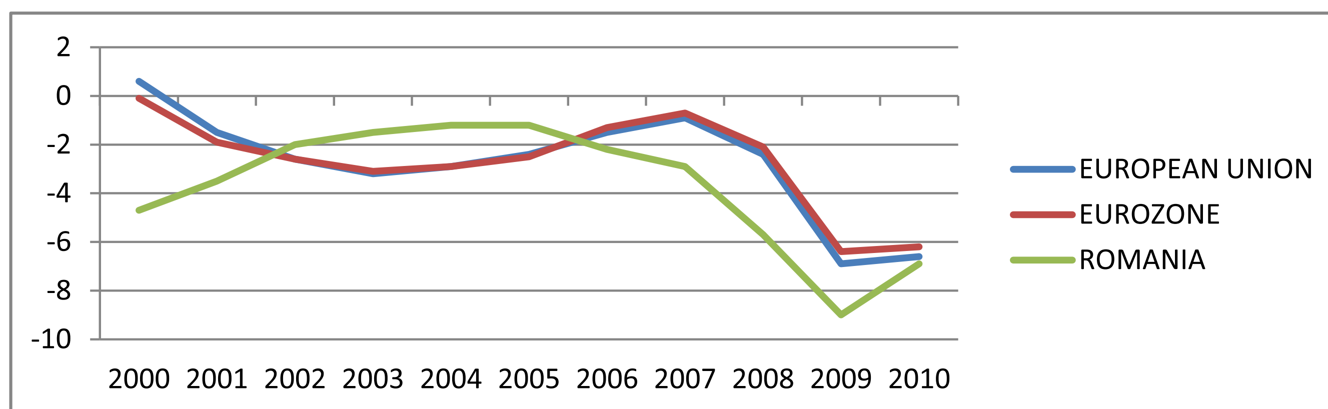
Fiscal policy is an important part of the financial policy, but its definition meets different views. Very common is the fiscal policy approach through the collection of public funds as taxes. George Manolescu argues that "fiscal policy is determined by the amount and source of feeding resources of public funds, the sampling methods to be used, objectives and means of achieving them." (Manolescu 1997, 265) Such a definition draws many critics of those who share the common view in the Anglo-Saxon literature, like the assessment made by Mihaela Onofrei, who believes that "the main deficiency is that the content of fiscal policy is not in any reference to public expenditure and collects a certain amount of financial resources available to public authorities, without determination of public expenditure financed form, an option may be unrealistic and doomed to failure." (Onofrei 2000, 22) The close connection between taxes and government spending is also emphasized by Paul Samuelson and William Nordhaus defining fiscal policy as "a process consisting in handling taxes and public spending", adding that taxes and government spending have three major effects: affect the general distribution national product between public consumption and investment, production and price are influenced in various fields achieved through direct expenditure and indirect incentives is influenced fluctuation aggregate production, prices and unemployment. (Samuelson and Nordhaus 1995, 364) Based on these ideas, we make an approach that considers the related influences of the two instruments to influence the economy is more appropriate today the tax authorities is oriented mainly to reduce costs than to change the tax system.

In another point of view, political leaders from 25 European Union member states in Brussels signed a treaty of fiscal governance. This treaty is a new effort by the authorities responsible for the implementation of macroeconomic adjustment policies for sovereign debt crisis, which affects mainly the Eurozone. This Agreement shall continue in practice the spirit of the Stability and Growth Pact, adopted at the initiative of Germany, who consider control of public spending in countries that use the euro. Early stages of existence European Union, the idea that tax harmonization is essential for the stability of monetary union was often circulated. Fiscal policy because it directly affects the allocation of resources between the public and private sector consumption and saving behavior and, indirectly, affect the evolution of business cycles.

The need for harmonization is especially within the euro area as macroeconomic stabilization policy rests entirely with national tax by reason of national monetary policy together with the use of the euro. The role of fiscal policy has grown exponentially along with giving up the instrument to adjust the exchange rate economies asymmetric shocks. A first set of rules has been introduced with the Stability and Growth Pact requires to support fiscal discipline. Inflexible rules, omission structure and causes deficits and focus only on the nominal setting limits has led to the imposition of a set of fiscal rules that are based on the working of automatic stabilizers.

A discretionary fiscal policy is not automatically reversed when crises occur, but applying the automatic fiscal stabilizers can in fact stabilize fiscal policy. Improving the effectiveness of automatic stabilizers and a structural deficit which tends to zero are the conditions for obtaining macroeconomic balances in the Eurozone. (Buti, et al. 2003) In this sense, is often recommended as a suitable target for fiscal policy to maintain a constant structural budget balance to a level

close to zero. This valence is particularly relevant as the EU Treaty in the context of the existence of fiscal governance which requires states to not exceed a deficit of 0.5% of GDP.
Automatic fiscal stabilizers can be negatively influenced by the constraints on fiscal space and debt sustainability and these constraints are typically found in emerging economies with large public debt or limited access to external financing. This leads to caution in the use of automatic stabilizers in countries subject to shocks that may arise from the aggregate supply, as automatic stabilizers can have effects on other objectives of fiscal policy. (Baunsgaard and Symansky 2009)
The analyses made on Romania show an improvement in size automatic fiscal stabilizers in the current period from 2000-2007, around 0.40 but their level is lower than the level considered for the Eurozone countries. (Socol and Socol 2012) This has resulted in considerable variation in the budget deficit in Romania to the EU average and the average Euro area (fig. no. 1).



Source: Eurostat, http://epp.eurostat.ec.europa.eu

Fig. no. 1 Evolution of budget deficit (% of GDP)

A simple solution to the current crisis was the Keynesian inspiration, which referred to increasing public spending and reduced tax burden. But under present conditions, this approach to taxation not generate the same positive effects as increased consumption, reduced unemployment, increase of incomes, because they are subject to reaction to fiscal stimuli private economic agents. Tax reduction does not generate, in present conditions, a significant increase in consumption in the economy for the propagation of the multiplier effect, if present sense of insecurity, lack of confidence or access to credit is difficult to place. In Keynesian economics, public expenditures have a greater impact on GDP compared to the impact of taxes, since the latter does not generate a direct influence on production, but the income available only to a lesser extent on the level of private consumption. Therefore the effectiveness of fiscal policy depends not only on the size of the fiscal package, but its structure, the way a choice between reducing taxes or increasing public spending. However, the effectiveness of fiscal policy in stimulating economic recovery is affected by adoption. Decisions must be taken immediately after the fall of the economy, to be significant as a share of GDP, does not adversely affect public finances and to be focused on supporting consumption. (Marinaș 2010)
But classical theory has imposed for years the balance between revenue and expenditure. Tackling the budget balance works closely with the budget side and the role of fiscal policy is the acceptance of budgetary imbalances for the occurrence and persistence of budget deficits, due to expansion of public spending and high tax pressure, should found ways to finance it. Loans can carry a stimulating role if used for productive purposes, thereby increasing GDP while ensuring the necessary resources for repayment. But if it is used for productive, they may only have deferred taxes (Barro-Ricardo conception), having only serve to delay the time to be passed on to taxpayers. (Barro 1974) In contrast to Barro's argument, Blinder has shown that short-term tax cuts tend to generate increased current consumption, not reduce it because consumers prefer

current consumption at the expense of future consumption. (Blinder 2004) Linnemann also showed that the negative effect of increasing taxes to repay loans on assets increases the number of hours worked and reduced preference for leisure, such consumption, hours worked and production will increase. (Linnemann and Schabert 2005)
Another important aspect in assessing the impact of fiscal policy is the pressure of globalization, which is present in the idea that national decision space is very low because global markets would punish governments. Daniel Dăianu questions the nature of global financial markets, which are products people's decisions to establish rules for finance, trade and investment and claim that you can not do anything about financial flows when crises cause a deemed inconclusive and put in support packages discussed in the financial industry in the European Union, concerning essentially the Eurozone countries. (Dăianu 2009, 87-88) New member states are often ignored when discussing these issues because it invokes the argument of the financial rescue of major banks and supports the emerging European Union. But bear in mind that these economies do not have their own reserve currency advantage, presents significant current account deficits are affected in times of crisis by redirecting capital to safer investments. As such emerging European Union, such as Romania could become a victim of this crisis safely.

III. Fiscal policy in Romania vs. fiscal policy in some EU countries

On November 7, 2011, the joint mission of the IMF and the European Union said that the Romanian economic program to strengthen economic growth, maintain financial stability and macroeconomic stability should continue. In 2009-2011, the surge in risk aversion during the financial crisis has caused many internal and external imbalances, leading to budget deficits over 7% of GDP and current account deficits of over 11% of GDP. As a result, capital inflows have declined considerably, and the exchange rate of MDL against EUR depreciated by more than 30% between August 2007 and January 2009. Therefore, the Romanian authorities have resorted, in spring 2009, a loan from the European Union, IMF and other international financial institutions. In May 2009 an agreement to provide financial assistance to Romania, with a total of 20 billion euro. In February 2011, following the joint visit of European Union and the IMF in Bucharest, was applied for a new financial assistance program of prevention, to help boost growth, with emphasis on structural reforms, while improving the sustainability of fiscal policy and strengthening financial stability. In exchange for these agreements, the Romanian state has increased the standard rate of VAT from 19% to 24% and resorted to drastic reductions in spending to meet budget deficit threshold. We believe that decreasing the high is fundamentally correct. But how this is done is extremely important. The question is whether the deficit should be reduced by restricting the price of private sector activity. Pro-cyclical character of fiscal policy decisions should be avoided both in times of economic expansion and recession periods. Support this idea because government deficits are the main cause of the current crisis and the drastic reduction of expenditures will be helpful in this regard. Instead a rethinking of the mechanisms of taxation believe that can give better results.
Starting January 1, 2005, 16% replaced the progressive tax on income between 18% and 40%. This rate replaced and tax of 25%, setting a single tax rate for both labor income and profit. The drawback of this system was that “the sea of social division and increasing social polarization between rich and poor.” (Buziernescu 2006) Its advantage was in excess of cash left in the Romanian economy, both in population and the company, apparently at the expense of state budget. Following this advantage was increased consumption, which occurred immediately, and the influence that rate was not sufficient to make a major contribution on fostering labor it must be accompanied by reduction of social contributions in our country are among the most highest in Europe.
An analysis of three of the most developed EU countries can allow us to properly assess our position in relation to the tax systems of other Member States, in view of the general

harmonization of tax systems, a process initiated by the joint project for calculating consolidated tax tax at EU level. We will look broadly, two categories of taxes, direct and indirect, in France, Germany and Britain, to see differences of view between the fiscal policies of these countries. This analysis should consider because it is often confusion between the tax burden, defined as the share of public revenues in GDP and the fiscal burden represented by the degree of affordability of taxes. Another relevant aspect in this analysis is that, as I said, fiscal policy should consider the interrelationship between taxes and public spending and tax burden does not consider only a little influence spending through their influence on denominator of the fraction. On the other hand the tax burden is greatly mitigated by a system of deductions for income and expenditure taking into account the nature of social or support from the state firms addressed. Tax burden in Romania can be considered small if one takes into account the EU average of 44% of GDP, Romania with a tax burden of only 34% lower than that of Bulgaria, according to Eurostat in 2010 recorded 34.9% of GDP. The highest tax burden in the European Union is registered in Norway, 57.1% of GDP. Of the countries analyzed, only France is above the European average, with a tax burden of 49.5% of GDP, Germany registered 43.6% and 40.3% of UK GDP.

As regards indirect taxation, while VAT is harmonized system are still large differences regarding tax rates. In France, the standard rate is 19.6%, in Germany the standard rate is 19% and in the UK is 20% lower compared to the rate practiced in Romania. However, reduced rates apply to commodity tax which reduces affordability. In France quota of 5.5% for the sale of food (including beverages but excluding alcoholic beverages) for supply of water, pharmaceutical products of a kind used for health care, medical equipment, passenger transport, delivery books on all physical, newspapers and periodicals, construction and refurbishment, as part of the social, restaurant and catering services, supplying gas and electricity. Another share of 2.1% applies to certain pharmaceutical products. These rates apply not uniform across France, with areas such as Corsica, where applicable rate of 8% and 13% for certain categories of economic activity. In Germany we apply a reduced rate of 7% for the sale of food (including beverages but excluding alcoholic beverages), medical equipment, passenger transport, delivery of books, newspapers and periodicals, accommodation in hotels and similar establishments.

The most obvious differentiation in terms of endurance tax on income taxes is observed in the countries analyzed because the focus is on tax fairness and equality rather than tax, such as Romania. In France, individuals pay income tax in installments progressive rates ranging between 0:41%. The charges also additional 3% tax for income between EUR 250,000 and EUR 500,000 and 4% for incomes over € 500,000. In Germany, tax is progressive personal income tax cuts, rates ranging from 0% to 45%. Single persons who have an income greater than 250,731 per year or couples with income exceeding 501,462 per year, paying income tax of 45%, prior 5.5% solidarity tax and church tax to 8% - 9%, according to tax class that is. UK income tax is calculated on all the installments of income, the shares being 10%, 20%, 40% and 50%. Additional tax rate of 50% was introduced in April 2010 for income over £ 150,000 and its purpose was to generate a surplus of 1.3 billion pounds of income tax in fiscal year 2011. Also there are some exceptions to the rule regarding British untaxed income and dividend income. The first tax rate of 10% refers only to income from savings of up to 2440 pounds salary income not exceeding this limit are not taxed. The dividend income below £ 37,400 is taxed separately from other income at a rate of 10% and those between £ 37,400 and £ 150,000 are taxed at a rate of 32.5%. Dividend income over £ 150,000 is taxed at 42.5%. In Romania, most income is taxed at 16%.

If we relate the cut came from the three countries at the average exchange rate for 2011, which was 4.2379 lei to the euro and pound sterling 4.8845 (http://cursvalutar.dailybusiness.ro), get 11 installments of income equivalent lei (Table no. 1.). A simple analysis of these tax cuts we can point out the position the employee in Romania in relation to employees in the countries under consideration. With reference to our annual average gross income in Romania, according to the

National Institute of Statistics (Statistics), for 2011 was 24,383 lei/employee, minus the individual contribution of 10.5% for social security, health individual contribution of 5, 5% and individual contribution of 0.5% unemployment, achieve average annual taxable income of 20,359 lei, corresponding tranche no. two. This portion corresponds to a tax rate in Romania to 16% applicable to the entire taxable income in the United Kingdom of progressive rates of 10%, applicable to the first installment of income and 20%, applicable income gap between upper income and first installment.

Table no. 1. Comparison between tranches of income and tax rates

<table>
<tr><th rowspan="2">No. installment</th><th colspan="2">Taxable income (lei)</th><th colspan="4">Tax rate</th></tr>
<tr><th>Minimum level</th><th>Maximum level</th><th>France</th><th>Germany</th><th>Great Britain</th><th>Romania</th></tr>
<tr><td>1</td><td>0</td><td>11.918</td><td rowspan="2">0</td><td rowspan="3">0</td><td>10%</td><td rowspan="11">16%</td></tr>
<tr><td>2</td><td>11.919</td><td>25.266</td><td rowspan="5">20%</td></tr>
<tr><td>3</td><td>25.267</td><td>33.920</td><td rowspan="2">5,5%</td></tr>
<tr><td>4</td><td>33.921</td><td>50.410</td><td rowspan="4">14%</td></tr>
<tr><td>5</td><td>50.411</td><td>111.961</td><td>14%</td></tr>
<tr><td>6</td><td>111.962</td><td>182.680</td><td rowspan="3">30%</td></tr>
<tr><td>7</td><td>182.681</td><td>224.104</td><td rowspan="2">40%</td></tr>
<tr><td>8</td><td>224.105</td><td>300.166</td><td rowspan="2">42%</td></tr>
<tr><td>9</td><td>300.105</td><td>732.675</td><td rowspan="3">41%</td></tr>
<tr><td>10</td><td>732.676</td><td>1.062.569</td><td rowspan="2">50%</td></tr>
<tr><td>11</td><td>1.062.569</td><td>***</td><td>45%</td></tr>
</table>

Source: authors' calculations based on data provided by the European Commission, Law no. 571/2003 on Fiscal Code of Romania and http://www.worldwide-tax.com/

Regarding the second largest category of direct taxes, income taxes, the situation is similar, the differences between our country and those taken in the analysis are remarkable. The standard rate of corporation tax in France is 33.33%, but there is specific rates of 15% applicable to small companies have a profit of up to 38,120 euro. Instead apply a surcharge of 3.3% for large companies, where profits more than 763,000 euro. To stimulate investment there an exemption for gains from the sale of shares held at least two years and dividends are taxed at 1.7%, only if the participation exceeds 5%. The standard rate of corporation tax in Germany is 15% but there is a reduced rate for some of the companies revenues. Also apply a surcharge, of solidarity, of 5.5%, designed to cover the costs of unification of both parts of the country. In Britain, the tax rate is 26%, it will fall to 23% in 2014 to stimulate investment, leading Britain to the lowest in the G7. For small companies tax rate is lower than 20%.

IV. Conclusions

This paper aims to take stock of the appropriateness of fiscal policy in response to the distortions that occurred in the European economies once the economic crisis. Fiscal policy, referring to taxes and public spending aimed at, together with monetary policy, ensuring rapid economic growth amid a highly labor employment and price stability. Debt crisis brought about a crisis of budget deficits. The state budget deficit is actually a tool to reach government economic policy. But this theory must be applied with caution. We believe that the role of the budget deficit is merely to revive a stagnant economy. After starting economic production is gradually reduced, public spending and tax incentives to encourage suppressed work. Also consider dangerous deficit systematic method. Deficit should be limited to short periods and under strict state control. And there have to grasp a problem: the state does not appreciate exactly how large public

investments should be set to balance the national economy. The recent experience of sovereign debt crisis shows that the use of public loans for deficits systematic does nothing to hasten the emergence of national bankruptcy. And the option to raise taxes to repay loans reduces the purchasing power of population and reduces solvent demand in the economy. Therefore we argue that a budget deficit, although beneficial for national economic recovery, balancing the level of economic cycle.

Another way to restore balance state budget and general economic equilibrium is also more closely reflect the revenues. They depend on several factors such as tax base and tax amount of taxable matters, applicable rates and no less important level of tax evasion. Although facing large deficits, the state budget and current account, Romania has made in years of economic crisis measures to limit the scope of the budget by spending reductions and shrinking consumption. We consider these measures as being pro-cyclical in nature and that led to financial resources towards the loan, increasing further debt.

Although Romania has a low tax burden compared to other EU countries, it is incorrectly assigned, fiscal policy decisions moving towards equality and not to tax fairness. It should be noted that Romania has a GDP/capita at half the European average and can not allow very large tax cuts but we think that giving up general rate of 16% and introducing a system that takes into account a progressive income tax large, coupled with increased personal deductions or setting a minimum income tax, combined with administrative actions to reduce fraud in obtaining assistance from the state, can rebalance the state budget. From our analysis we conclude that developed countries from European Union have a VAT regime less oppressive than Romania, taxing less the food and commodities and also requiring the odds higher profits without discouraging any investment. Another important aspect is the contributions to public social security funds. We find that direct taxation discourages investment income or profit, but especially the aggregate cost of labor, determined by contributions paid by employers.

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