

ECO – FISCAL POLICY IN ROMANIA: MITH OR REALITY?

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Fiscal ecology has become in recent years a very interesting subject in Romania and in the recent European context specialists are filling their agendas with points about the environmental policy and the environmental fiscal policy are top priorities.

But is there the Romanian state able to use environmental fiscal instruments in order to regulate economical agents behavior or is the state just using them as fiscal instruments with no environmental purpose? In a world that is constantly moving and is facing different problems, states are trying to find new ways to create budgetary resources in a crisis situation. What is Romania's position?

Environmental Romanian fiscal policy has to be thought in the general economic context, being included in the general social and economical problems. Thus, the fiscal policy should aim at integrating into costs consumption and production externalities but this causes several effects hard to dimension.

The Romanian fiscal system needs hard coercion measures and a total rethinking of the imposing system in order to become efficient. Therefore, only after 2000 we can state that Romania had real environmental taxes but how are often modified both as way of determination and imposing base, things that have generated lack of trust and even panic among the economic agents.

In this context, the paper aims to underline the environmental fiscal policy characteristics applied in the European Union states and especially Romania, in order to surprise the role of the environmental taxes by comparison with other direct taxes, underlining at the same time the national fiscal policy modifications.

Analyzed data has been coming from different sources. Thus, for international comparisons the European Union site has been used, the Eurostat, the Romanian Finance Ministry site. The research is mainly based upon a synthesis of the reached area in the special literature. The study continues a fundamental research using deductive and inductive research mechanism in order to delimit the used concepts.

Keywords: eco-fiscal policy, environmental taxes, fiscal policy, energy taxes, fiscal burden

JEL classification: H23

Introduction

The human kind is facing the most dramatic crisis since the '29 – 33's one, crisis that does not imply just economical and financial elements but also social and environment ones. Are there still pertinent solutions for the environment sustainability and is there still a way for states to implement fiscal policies with an impact upon the environment? In the European context every state wishes a stable and coherent fiscal policy which will offer the possibility, on one side, to attract new and more foreign investments and, on the other side, to increase the collection degree of taxes. Romania is aiming at the same things but because of some elements, not always related to fiscal factors, it is not able to increase the collection degree but rather to increase the fiscal burden and especially the indirect taxation (the VAT has been modified from 19% to 24% which has lead to a decrease of consumption and not to an increase of VAT encasements).

1. Environmental fiscal policy in Romania: between “can” and “do”

1.1 Environmental fiscal policy general characterization

In a general sense the environmental fiscal policy means all the taxes and royalties applied upon any products and services that can damage the environment or upon polluters by burdening upon renewable or non-renewable resources (OECD 2001: 16). This definition is putting into practice the principle the “polluter must pay” that is specified in the Romania legislation too.

Environmental policy works like an externality internalization instrument, the externalities been considered a cost impose to an economic agent that does not take it into consideration in future decisions (OECD 2001: 22), while others consider that internalizing externalities can't be done without negotiations been parties – the victim and the polluter (Coase 1960: 1-44). Putting this

negotiation into practice is very difficult because cost related un-clarities will emerge and a prohibitive cost may appear and it can be higher than the social gain possible to obtain.

On international level the environmental policy is inciting firms to respect regulations because decreasing pollution will allow the firm to make economies equal to the pollution permit cost or tax, stimulating innovation, research and non-polluting technology. If there is not coherence and consensus in applying these instruments the environmental taxes impact upon competition will not have the expected result.

Although environmental taxes are aiming to make the economical agents and population more responsible as regard to their actions that can damage the environment we have to state that in establishing these policies the state will follow the principle “the polluter pays” because the one responsible for the damage should support the damage cost. The fiscal reform starter in the '90's is, practically, still going on in every state but in different rates and with different reactions. After the '90's Denmark, Finland, Germany, Holland, Switzerland have imposed environmental taxes but at the same time have decreased labor taxes (in order to maintain an constant fiscal pressure and to avoid a double dividend taxation), Slovenia has introduces in 1997 a tax upon CO₂ emissions applied to all energetically products while the Czech Republic has realized the environmental tax reform in 2008 focusing upon increasing tax quota for most energetically products in the period 2008-2012.

1.2 Comparison between Romania's environmental taxes and other countries

In Romania the fiscal reform started after the '90's has had more fazes. In the first period (faze) (1990-2000) the accent has been laid upon the indirect taxation, during which the value added tax has been introduced (1993), excises, and the wage tax was being determined according to a proportionate imposing system but in this period the environmental taxes have had small results. Starting from 2000 and preparing to negotiate with the European Union an eventual future adhesion, Romania is starting to rethink its fiscal policy thus to obtain a better businesses environment, attract more foreign investments, stimulating economical developing and at the same time introduce and modify fuel, bio-diversity, energetically products taxes, etc.

After the adhesion that took place at 1st January 2007 Romania is still in the process of harmonizing its indirect taxes, is rethinking the revenue taxation and introducing modifications regarding environmental taxes (first registration tax or the pollution tax for vehicles being the most often modified). Environmental tax can influence both the economic agent and population decision process and this is way in establishing such a tax there are a few factors that are need to be taken into consideration: fiscal pressure at macro-economic level, economical development degree, inflation rate, public dept percentage into the gross domestic product, new pollution sources, etc.

We do consider that environmental taxes can also have some negative effects upon an economy by increasing administrative costs, social disequilibrium appearances, decreasing competitiveness when tax quotas are high because taxes levied upon production factors will lead to increasing prices, decreasing wages and capital competitiveness (OECD 2002: 12).

A fiscal reform should aim at fiscal or budgetary neutrality thus the social impact will be decreased by a smaller fiscal burden especially upon labor. In this sense, the environmental taxes are characterized by the so- called mechanism “double dividend” (Dyck-Madsen, 2003): significant increase in environmental protection and creation of jobs.

Although the increasing interest in environmental protection, in Romania the revenues from these taxes has increased with a lower rate than the average European Union increasing rate for other taxes. In 2009, in the European Union 27 the environmental revenues were 2.60% from GPB and 7.40% from the total fiscal revenues while in Romania the same revenues were just 1.90% from GDP and 7.00% from the total fiscal revenues. But the evolution of the environmental taxes

should be analyzed by comparison with other budgetary revenues (revenue, capital and labor taxes, figure no. 1)

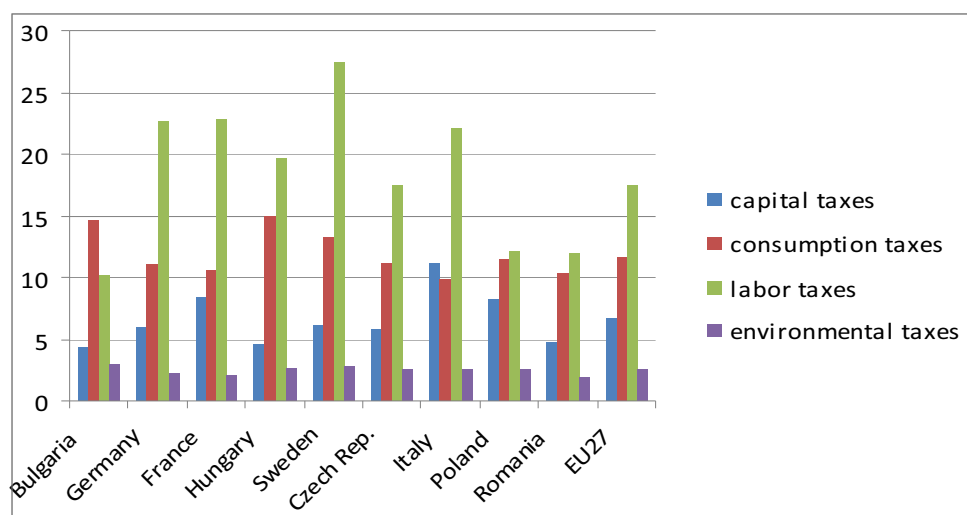


Fig. 1 Capital, consumption, labor and environmental taxes in GDP in 2009, EU states

Source: Taxation trends in the European Union (2010), European Commission – Taxation and Customs Union, Eurostat Statistical books

At European Union level in 2009 labor taxes have an average of 12.00% from GDP while the environmental taxes have an average of only 2.60%. Furthermore the environmental taxes have the tendency to decrease as percentages from GDP with some exceptions: Cyprus, Malta, and Norway.

For a better comparison between the two taxes - level of revenues collected from the two taxes, figure 2 presents the denominated level of revenues by deduction with the harmonized consumption price index (IAPC) afferent to member states.

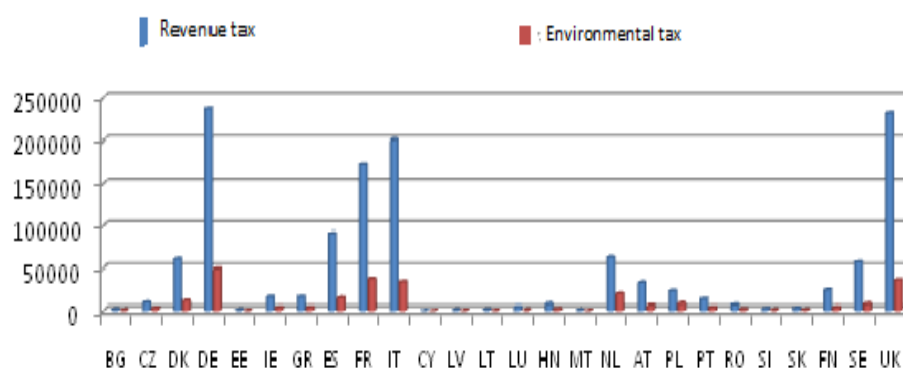


Fig. 2 Comparison between environmental and labor taxes in the European Union (real values, millions euro)

Source: Taxation trends in the European Union (2010), European Commission – Taxation and Customs Union, Eurostat Statistical books

An analysis of the different fiscal systems for the European Union countries permits us to assess that fiscal revenues have, in general, three main sources: consumption, capital and labor (fig. 3)

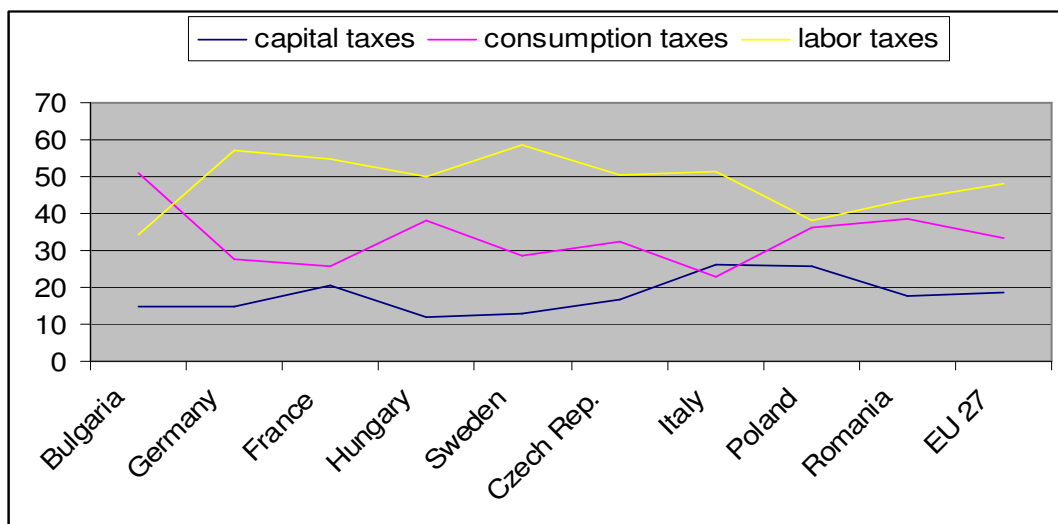


Fig. 3 Fiscal revenues sources (EU, 2009)

Source: Taxation trends in the European Union (2011), European Commission – Taxation and Customs Union, Eurostat Statistical books

We can see that Romania as well as other ex-communist countries has a fiscal policy based upon the indirect taxes that meaning based upon consumption (which are in Romania 38.40% from the total encashment while the same tax has just 22.80% in Italy). As far as the environmental taxes their average has been in Romania of 7.00% while the European average has been 7.40% (Romania is the 14th from the 27 member states being outrun by countries with a waste environmental taxes experience like Denmark, Great Britain, Holland but also by recently adhere countries Poland, Czech Republic, Latvia). Among eco-taxes, the energy tax has the main percentage at European level (EU-27) with 73.00% from the total fiscal revenues followed by transport taxes with 23.00% from the total fiscal revenues while taxes levied upon resources/pollution are not significant, just 0.40% from the total fiscal revenues.

Furthermore, if we continue our research we find out that the real motive for this decrease is that from the market a lot of big polluters have disappeared and so we can not sustain that environmental taxes have reached their purpose in Romania that being to change economical agent's behaviors.

If we analyze the fluctuation for each environmental tax (energy, transport and resources/pollution tax) we can see that the main source of the fluctuation has been the energy tax while transport taxes have been significantly modifying since 2007 when the first registration tax has been introduced.

In Romania after 2003 energy taxes have decreased and this trend has been set by both a low level of excises (the excise level for fuel is most times under the minimum level stipulated in Annex I of the European Directive 2003/96/EC) and a reduced collection degree. Furthermore, between 1995-2011 Romania had had the lowest fuel price in comparison with other European countries, thus in July 2011 this was 1.23 euro/liter face to 1.65 euro/liter in Greece (state facing an acute debt crisis) followed by Bulgaria where the price was 1,16 euro/liter.

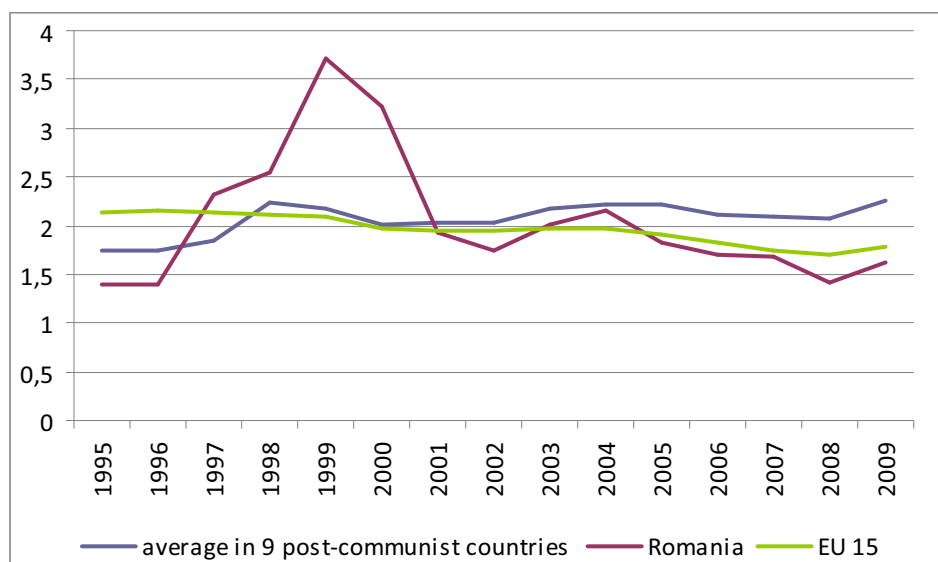


Fig. 4 Energy tax revenues (% GDP, evolution 1995-2009)

Source: Taxation trends in the European Union (2011), European Commission – Taxation and Customs Union, Eurostat Statistical books

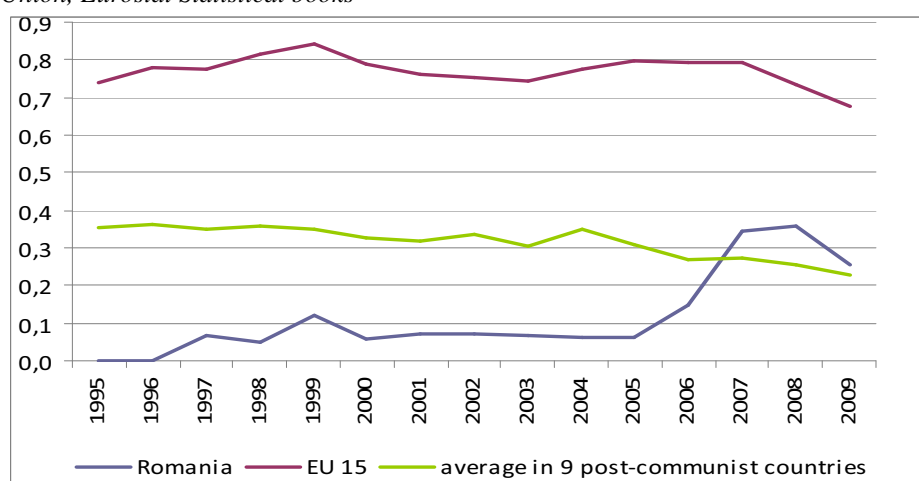


Fig. 5 Transport tax revenues (% GDP, evolution 1995-2009)

Source: Taxation trends in the European Union (2011), European Commission – Taxation and Customs Union, Eurostat Statistical books

The moderate decrease of the energy tax percentage in GDP over 2000 and 2009 is the result of a structure tax change at the European countries level. For example in Cyprus energy taxes increase is 1.00% form GDP while in Bulgaria, Poland and Estonia is just 0.50%.

2. Conclusions

We can generally state that in states adhered in 2004 and 2007 the small increase in environmental taxes is due to the harmonization process, some of them taking advantage of this in order to increase their level beyond the requested adhesion level. Furthermore we can see, on one hand, the extreme low revenues from environmental taxes in developing states like Cyprus, Estonia, Latvia, Lithuania and on the other hand, the high difference between the real value of environmental taxes and other revenues taxes in develop states like Germany, France, Italy, Spain or Great Britain.

Are the environmental taxes incentive or have they just a fiscal role? In Romania it looks like they are seen just from the possible revenues brought to the states budget and have less a coercive character upon the ones damaging more or less the environment.

Taking into consideration that the existence of such taxes in the energetic sector hasn't had any international competitive advantages, Romania will continue to increase its environmental fiscal taxes at the European Union recommendations. In order for this system to work it has to be put into practice at the same time a policy regarding the revenue tax decrease (Romania has a great labor taxation – in 2009, 35% of the states revenues were direct social contributions).

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