THE FINANCIAL DISCIPLINE A FACTOR OF ECONOMIC GROWTH

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***Abstract**: We have considered that the paper can be structured in five chapters meant to bring light, as much as possible, on the tight relation between financial discipline and economic growth, the role and place of financial discipline as an important factor of economic growth, in the same time having propositions which will generate a different approach of financial discipline and will contribute to a beneficial finality for the society. Currently, the economic growth is considered a synthetic expression of the chances to have a better life and, that is why it represents a major macroeconomic policy objective. The economic growth is interpreted as an ascending positive evolution of macroeconomic results. Economic growth consists in the quantitative increase of activities and their results considering the entire national economy, in a close relation with the factors contributing to this increase. The economic growth is expressed by the dynamics of macroeconomic indexes of the results of the activity in real terms, that is GDP, GNP and NI. For the macroeconomic dynamics is correlated with the demographic dynamics, the variation of macroeconomic indexes is frequently reported to the variation of total population. Thus, the economic growth is measured synthetically through the growth pace of GDP, GNP and NI per total and per inhabitant. In all developed countries, the weight if direct taxes in the volume of fiscal revenue represents from 70% in the EU to 85% in the USA, which shows the importance of the role this group of taxes has in forming budget revenues. The economic situation of a state can be positively or negatively influenced by direct taxes; they can hinder or give an urge to economic growth, achieving the regulating stimulation function of the development of economic processes. Considering Romania, one of the main economic problems is the insufficiency of investment resources allotted, these being the main factor contributing to economic growth, a situation when the increase of this allocation is appreciated as being one of the state's priority tasks.*

***Keywords**: financial discipline; economic growth; fiscality; taxes; VAT.*

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1.Introduction

It is considered that a national economy records economic growth if there is the dominant tendency of a real positive growth on a long enough term in order to eliminate the conjectural effects of the business cycle. The economic growth does not present the qualitative changes of national economy, reflected in the economic structure and the living standard, these aspects being emphasized by the concept of economic growth. The history of economic growth demonstrates that, for centuries, a nation's welfare has been given by the level of gross domestic product, which represents "the gross value of all officially recognized final goods and services produced within a country in a given period of time by economic agents carrying out their activity within the national borders". The economic growth process is a complex process to increase the results in national economy, based on the combination and use of direct factors of production: labour force, fixed capital and the consumption of current assets. The economic growth is desired in each country for it gives the possibility for the population to use more goods and services and, in the same time, to contribute to the ensurance of a larger amount of goods and social services such as health, education etc., thus leading to the real improvement of living standards.

2.Financial discipline

The financial discipline can be defined as: the order that legal persons must comply with in accordance with the laws in in force concerning economic-financial problems. For an economic consolidation in Romania, the restructuring and reforms in public expenditure management become a priority in managing state companies as well as the collecting of fiscal revenues which should allow the economic growth, financial discipline and public equity. The financial discipline means first of all to leave behind financial impulsiveness and to try to self-educate the purchasing and saving behaviour.

Complying with financial discipline, mainly, by collecting direct and indirect taxes to a higher extent, has an impact on the formation of consolidated budget revenues, investment processes, price-formation process and social sphere development. By its fiscal practice, the state takes over a part of the revenues made by natural and legal persons under the form of fees and taxes.

The measure of VAT application when collecting bills, in force since 2013, will introduce the financial discipline both in the state sector as well as in the private sector. The state will pay the bills in maximum 30 days, or 60 days in the pharmaceutical sector, according to European Directive in force since 1st March 2013. Private firms can pay the bills in an interval of 120 to 200 days.

In order to strengthen financial discipline, reductions of public expenditure are required, among them:

- prohibition of contracting external juridical assistance and consultancy services, in the case of public authorities and institutions, national companies, autonomous administrations, business companies, where the state is the major shareholder, which have their own juridical specialised employees;
- prescription of measures to reduce entertainment and travel expenses for public institutions and authorities;
- prescription of measures to reduce expenses to acquire printings and other goods for representation and entertainment or for festive days or celebrations and, also, travelling to foreign countries, from public funds, a measure applied and cannot be applied to national companies and autonomous administrations which had losses in the previous period or are financed by state aids.
- prescription of measures to reduce the expenses on feasibility studies providing they acquired in the last five years the same studies or the investment project is not going to be contained in the programme of the next budget year, for central and local authorities;
- in the public investment programmes there will be recorded only the projects likely to have multiannual financing, according to the law.

3.Economic growth

A superior living standard can be achieved only through a superior production of goods and services. Economic growth consists exactly in the increase of the results of economic activity at macroeconomic levels. Economic growth is expressed by the increase pace of macroeconomic indexes (GDP, GNP, NI). Frequently, the variation of these indexes is correlated with the demographic evolution.
The description of economic growth with the help of the production function:

GDP = f (Labour, capital, technological progress)

Therefore, economic growth derives from the quantity and quality of labour factor existing in a country. The quantity of the labour factor can determine a healthy economic growth providing there is an increase in the capitals stock, too. Thus, the increase of the labour quantity used if the capital stock remains constant determined the use of the production factors with less and less efficiency, which determines a decrease of the production per capita.
The World Bank (WB) has worsened the forecast of economic growth for Romania, for this year at 1.6%, from 2.8% as it was estimated in the middle of the last year, considering the a slow relapse at the level of entire region, determined by the maintenance of the factors limiting the GDP progress last year, too.
The International Monetary Fund (IMF) is forecasting an economic growth of 1.5% of GDP for our country, for 2013, a slightly more pessimistic forecast than the figures the government based the budget for this year, 1.6% of GDP, respectively.
In the years 2000-2004, the annual average economic growth was of 5.4%. The capital stock and the TFP have contributed positively and relatively equally. The change in the number of employees has contributed negatively. Finally, in the years 2005-2008, the annual average economic growth was of 6.4%, explained almost entirely by the capital stock.
Romania must reconsider the economic growth model, especially in the case of state enterprises and it must pay attention to what it spends the capital. In consensus with the analysts' expectations, the Romanian economy had a slight growth of 0.2% in the GDP in 2012 as compared to the previous year.
The economic growth is determined by factors such as:

- direct factors:
  - Growth of active population;
  - "Investments" in the human capital;
  - Increase of the volume of capital used;
  - Technological changes.
- Indirect factors:
  - Institutions (financial institutions, private administrations etc.);
  - The Government.

It can be noticed that in the literature, financial discipline is not tackled as an economic growth direct factor, yet this derives from the interpretation of direct factors, with implications on both the quantitative growth of production factors used and on their qualitative growth.
For the following period, there have been taken measure which should strengthen up financial discipline, out of which we mention:

a) the change of a number of approximately 15 normative acts regarding the approval and deduction of structural funds or the approval of the budgets of some public institutions or commercial companies/autonomous administrations.
b) the change of the control procedure regarding the running of projects financed from structural funds and the situations when the Fight Against Fraud Department (DLAF).
c) the change of the recovering procedure of the amounts of money spent uncomformably with the procedures concerning the financing of budgetary projects, ANAF (The National Agency for Fiscal Administration) having rights in this view, applying the Fiscal Procedure Code.

Foreign direct investments are the solution for a sustainable economic growth in Romania.

Foreign direct investments (FDI) bring an essential contribution to the economic growth. They create jobs, optimize resource allocation, allow the technological transfer and stimulate trade.

The business environment in Romania needs economic freedom and friendly fiscality for entrepreneurs, including foreign investors, too.

The creation of a framework favourable to the economic environment by promoting some favourable conditions to attract foreign investors such as: a fair, equitable and non-discriminatory treatment; protection against illegal expropriations; direct use of international arbitration and transformation of Romania into an attractive environment from the fiscal point of view.

The experience of some countries in transition (Poland, The Czech Republic, Hungary) demonstrates that the FDIs have contributed to the radical modernization of their economies by the use of new technologies, the use of the most modern business management methods, to reduce the enormous gap of competitivity which was separating the economies of the new member states of the European Union from those of the developed countries.

The measures to stimulate investments by the innovative sectors together with the fiscal relaxation measures will represent strong arguments for the future period, both regarding Romania's capacity to attract foreign direct investments and also the power to convince foreign investors to develop a lucrative business in Romania than in their country.

EU is the most important world player in the FDI sector. Until 2008, the FDI external flows were worth 3,300 billion EUR, while the internal EU flows represented 2,400 billion EUR.

Taking into consideration the extremely important role played by tangible and intangible assets in the economic growth, as well as the stable, sustainable character that they give to FDI, it can be seen that the sales at the end of 2008 worth 22046 million Euros represent 45% of the total of FDI, inducing a significant degree of sustainability to the foreign direct investment. The activity of enterprises foreign direct investment, overall, has a positive impact on the balance of trade of Romania, the contribution to exports being of 73.0%, while for the imports was of 62.6%

The creation of the favourable investment climate, making it more attractive for foreign investors, was and will be one of the main tasks of the economic policy of Romania.

Table 1. Evolution of foreign direct investments (FDI) drawn by Romania, 2004-2010 (millions of Euro)

Year	2004	2005	2006	2007	2008	2009	2010
Value	5183	5213	9059	7250	9496	3488	2696

Source: National Bank of Romania, Balance of payments

Foreign direct investments in Romania lowered last year with 11%, to 1.613 billion Euros, compared to 2011, the deficit of current account being financed in a proportion of 32% through direct investments of non-residents of Romania, according to data provided by NBR.
In 2011, foreign direct investments were worth 1.815 billion Euros. Also, in the first 11 months of 2012, foreign direct investments summed up 1.440 billion Euros.

4. Financial discipline a factor of economic growth

Fiscal policy, using taxes, generates psychological, financial, economic and social effects on the economic-social environment. The public power which becomes aware of the reality of consequences of the action of taxes adopts as a solution changes in the structure of fiscal system, in order to modulate the effects in accordance with the finalities desired. Consequently, the amplitude of the finalities desired influences the technical characteristics of taxes and the latter on the micro and macroeconomic effects.
In this view, we would like to show that financial discipline allows the creation of budgetary sources necessary to allocate funds for economic growth, especially through direct and indirect taxes.
In order to understand this phenomenon it is necessary to show which of these taxes have a higher contribution in the case of Romania and is their dynamics in Romania as compared to other states.
Indirect taxes are used as leverages to influence the activity of agents.
In order to obtain the financial resources necessary to the state, there are indirect taxes when forming fiscal revenues (it is lower than that of direct taxes) and of the contributions for social insurances altogether, and the weight of these indirect taxes in the total of fiscal cashing is different from country to country.
The indirect taxes are mainly made as consumption taxes, being charged when selling different goods or when performing certain services. They are carried out by all those consuming goods from the category of those imposed by their incomes, wealth or personal situation. The indirect tax quota when selling a certain product is unique no matter if the buyer is a worker or a manager.
In Romania, fiscal and budgetary revenues are dependent on the revenues from indirect fees and taxes (VAT, excises, customs duties, etc.), while, in the European Union, the contributions of the three important categories of fees and taxes (direct, indirect taxes and social contributions) when forming the revenues are relatively close.
The reform of the fiscal system is necessary for the budget balancing within the European limits of incomes and expenses with reference to GDP.
Imposing strict constraints to bad-payers and the diminishing of tax nominal level regarding revenues should enlarge the application base and the increase of efficiency in collecting.

The development and implementation of a long term and average term modern and predictable fiscal strategy would be essential in the context of competition which manifests among the European states in order to draw new investments and create new jobs.
The VAT is a state imposed tax. The VAT setting policy is set up by the Romanian legislator, in compliance with the European legislation concerning fiscality. At the level of Romania, the legal framework dealing with VAT is regulated by the Fiscal Code and its application norms.
The VAT was introduced by the European Economic Community in 1970, by the first and second VAT directive. The purpose of introducing VAT was to replace the production and consumption taxes.
Since 1 July 201, Romania has had a VAT standard quota of 24%. In other words, the price that a Romanian pays for a product or a service in Romania is actually made up of the cost of that product, to which it is added the profit margin of the seller and the VAT. As a general rule, the cost of the product or service together with the profit margin make up the calculation base to which the VAT quota is applied. Therefore, each payer in Romania contributes with 24% to the Romanian state budget by each purchase of goods and services that he/she makes.
With 47.9 billion lei and 26.4% of the state's revenues in 2011, the value added tax is on the second position regarding the taxes collected at the budget, shortly behind social contributions. Also, together with the reduction of these contributions (absolutely necessary to reduce the labour costs and the increase of competitivity), it will take the first position.
The evolution of taxation implicit quota in the last ten years shows that Romania returned last year to the efficiency of collections of 2002 (54%), after it had succeeded in the years 2005 – 2008 to stay above the threshold of 60%. It is worth noticing and stating, the elective year of 2004 coincided (accidentally or not) with the lowest efficiency collection of the VAT, which led the taxation implicit rate under 10%.

Table 2. Evolution of the implicit quota collection and the efficiency collection of the VAT (2002 and 2011)

Year	Taxation implicit quota (%)	Taxation efficiency (%)
2002	10.3	54
2003	10.9	57
2004	9.7	51
2005	11.6	61
2006	11.5	60
2007	12.3	64
2008	12.1	64
2009	10.7	56
2010	12.0	56
2011	13.1	54

Source: Fiscal Council

Compared to 2008, when the effects of the world economic crisis had not manifested plenary, the force of cashing by increasing the VAT has brought only one percentage point of GDP. Also, inflation has temporarily increased, discouraged the

consumption and reduced the domestic demand, implicitly the production and economic growth.
All these are the effects of a reduced degree of taxation application, relatively high at the level of legal quota, yet relatively low at the level of effectively collected quota. Unfortunately, the problem does not seem to have easily applicable solutions. The VAT increasing in 2009, a year with a quota entirely of 19% and 2011, with a quota entirely of 24%, shows an increasing of the effective quota from 10.7% to 13%, which means an almost proportional increase.
Romania is situated on position 16 on the European continent concerning fiscality, with a relative index of 119.5%, according to a Forbes study. It is outrun by France, Belgium, Sweden, Italy, Austria, Norway, Greece, Slovenia, Holland, The Czech Republic, Finland, Hungary, Denmark, Portugal and it was positioned ahead of other countries.
Non-fiscal revenues consisted mainly in the sums cashed from the economic activities of entities with state capital and in the sums obtained from the state from the properties it owns or the natural resources which are state monopoly privately exploited.

Table 3. The main budget revenues

Year	2010 (Billion Lei)	% of Gdp	2011 (Billion Lei)	% of Gdp
Tax on salaries and income	17.96	3.45	19.08	3.30
Profit taxation	10.12	1.94	10.31	1.78
Taxes and property taxes	3.80	0.73	3.98	0.69
Contributions to pension funds	31.83	6.09	34.66	5.99
Contributions to health services funds	13.14	2.52	14.93	2.58
Contributions to unemployment funds	1.21	0.23	1.27	0.22
VAT	39.25	7.50	47.92	8.28
Excises	17.31	3.31	19.10	3.30
Non-fiscal revenues	19.81	3.79	18.22	3.15
Sums of money received from the EU	5.44	1.04	6.11	1.06

Source: Fiscal Council

In the first third of 2012, the most of the posts of revenues recorded increases regarding the estimated GDP:

- from 0.81% to 0.85% for the income tax
- from 1.01% to 1.13% for the tax on salaries and income
- from 2.46% to 2.48% for VAT, from 2.74% to 2.82% insurance contributions etc.

These data show that we continue to count on high direct taxes (VAT, excises), on very high social contributions, yet weakly collected. There is even less talk regarding the effects, positive or negative, that different fiscal policies induce into economy and the modelling of the tax payers' behaviour. Let's not talk about the implications that

such measures have on the administration costs, of the bureaucracy inevitably associated with the collection of any tax.
We must understand that the tax and fees system is a complex mechanism, in which each component works together with the others, influencing each other and it needs protection which cannot be determined by the fiscal administration.
In this view I will exemplify that we have a very competitive income tax, which, yet, comes together with that of social contributions, which has high quotas and unreasonable base taxation and multiple exceptions and preferential treatments, aspects which lead to a huge evasion and too high administration costs.
Although we have a reasonable profit tax, associated with the dividend tax, the total tax is high, a situation in which the investors are looking for solutions not to pay their dividends or they find solutions to reduce the expenses many times on the brink of law and in some cases, using justifying documents which are not based on real commercial operations.
Having a VAT quota of 24%, yet we collect only half of what it is supposed to be collected, the tax payers using solutions to significantly diminish the VAT they have to pay by unreasonably pointing out a deductible VAT, in many situations using fictitious justifying documents, a situation in which there are inevitably influences on both the profit tax and on the income tax (returns diminishing).
The economic growth and the fiscal discipline represent a permanent preoccupation of all the EU member states, without economic growth the fiscal discipline is not bearable.

5.Conclusions and recommendations

The states of the Euro zone need the improvement of fiscal discipline and of community mechanisms by which the countries breaking the budget rules are sanctioned, in the near future being unrealistic to carry out a fiscal policy common to the Euro zone, yet there can measures to ensure the stability of individual fiscal policies, starting even from the application of sanctions to countries which break the rules of budget discipline.
Taxes should not influence the tax payers' behaviour, they must be the same no matter the type of income, not include distortions. To be reasonable, the fiscal duty must be distributed as widely as possible.
From everything presented above, we can conclude that it is necessary, as urgent as possible, to restructure the Romanian fiscality and the way in which the administration is made, so that the system of taxes and fees function more efficiently and to lead to a better collection, which would have a major impact on the increase of budget resources and, in this way, might lead to economic growth.
Also, there is the need for a serious analysis of the potential for the widening of the taxation base, in this view, existing, for example, the potential for fiscal adjustments regarding agricultural fields and dues, yet in a close correlation with the companies' investment plans and especially with the population's degree of impoverishment.
The changes in the fiscal policy should be made public after comprehensive analyses and after their impact on the economy had been previously estimated, the fiscal consolidation should target the increase of fiscal revenues and the accelerated absorption of European funds might considerably soften the pro-cyclic character of fiscal consolidation.

Also it is necessary the transparentization of public acquisitions where the problem lies in the lack of transparency and the preferential destination for political clientele and, also, it is required the monitoring of public expenses by an independent entity.
The current situation shows the increased vulnerability of the Romanian economy when faced with the world crisis due to the subterranean economy, the low rate of tax and fee collection as well as to the lack of fiscal predictability, a situation in which it would be required to reduce the subterranean economy through severe punishments for those who perform tax evasion, including the reform of control institutions and other measures necessary to discourage these activities.
Although they exist and have enough personnel, local fiscal offices do not have the expected efficiency, in many situations due to the system of work of these institutions, being necessary a consolidation at the local level and, due to delays in control and the streamlining of the levy activities it is necessary the use and improvement of informational systems.
The absorption of European funds can be a strong modernization instrument if it brings a relevant supplement of resources, if it helps to develop the infrastructure, if it is favourable to the modernization of public administration, diminishing the waste and embezzlement of public money.

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