FISCAL POLICY AND ITS IMPACT ON ECONOMIC GROWTH

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Abstract:
Fiscal policy is a very important factor in economic life and its influence and effects on the functioning of the economy must be examined in detail. Fiscal policy generally includes all decisions of a fiscal nature taken by public decision-makers in order to ensure financial resources for financing public needs and achieving certain socio-economic goals.

Key words: *fiscal policy, economic growth, economy, tax*

JEL classification: *F5*

Fiscal policy is a process by which the national government decides on the timing and composition of government spending and taxation. Fiscal policy is the process by means of which these financial activities are achieved.

Government spending and taxation are two instruments of fiscal policy playing a major role in economic growth. Expansionary fiscal policy can be applied in times when the economy is performing poorly and economic growth is low. In this case it is possible for the government to increase its spending and reduce taxes to stimulate the economy. By doing so, more saving and investment opportunities will be created domestically, which may in turn have a positive impact on economic growth.

Taxation can be used to redistribute income and wealth to those with lower income, ensuring their efficient contribution to economic activities. Tax rebates and concessions can be used to promote the growth of industries that have high employment-generating potential such as mining, fishing and agriculture.

Fiscal policy is the main component of financial policy. As a component of economic policy, taxation should lead to the fulfillment of economic objectives.

According to specialists, fiscal policy generally includes all decisions of a fiscal nature taken by public decision-makers in order to ensure financial resources for financing public needs and achieving certain socio-economic goals.

There are also specialists who believe that, broadly, fiscal policy is an activity within the public authority's collection and use of resources required to meet public consumption and supply of services and public goods. Fiscal policy determines the volume and sources of supply of public funds, the sampling methods to be used, along with the objectives pursued and the means of achieving them.

In any society there are three types of needs:
- individual needs;
- collective needs;
- quasi-public, respectively quasi-private needs.

If the first class of needs can be satisfied by means of private property, provided by market mechanisms in exchange for a certain price, collective needs are satisfied by means of collective (social) goods. Public authorities participate in satisfying collective needs, as the private sector is unable to provide such goods and services. Quasi-public or semi-public needs can be satisfied both by means of private and public goods.

Therefore, the government role of allowance, distribution and even regulation involves finding certain financial resources obtained by means of selling certain services. For instance: by means of rents from land concession or other goods owned by the state, taxation, aid, donations, and if these resources are not sufficient, by loans.

Fiscal revenues with the central public administration are:
- direct taxes (income tax, profit tax, tax on wealth);
- indirect taxes (value added tax, fiscal monopolies, customs duties);
- registration and stamp duties (duties of justice, notary fees, consular fees, administration fees).

The structure of public financial resources is however very different from one country to another.

While in developed countries the largest part of public financial resources is determined by direct taxes, in developing countries – among which Romania – the main source resides in indirect taxes, particularly taxes on consumption (VAT, excise).

In 2005, a new business tax reform was undertaken which sought to encourage large companies with high financial strength. The new tax system provided:
- flat tax of 16% on income of individuals and company profits;
- exception to the rule still consists in the taxation of small-sized companies, provided that they obtain at least 50% of their income from activities other than business and management consulting. This provision was intended as a solution to eradicate the use of small-sized companies in order to provide wages for certain employees. The income tax rate for small-sized companies was 2% in 2007, 2.5% in 2008 and 3% in 2009;
- for gains coming from redemption of securities from open investment funds:
    - when held for a period of less than 365 days, the general 16% tax rate is applied
    - when held for over 365 days, a 1% tax rate on the net income earned is applied
- for purchased and redeemed securities, a 16% tax is applied on the net income earned from the sale-purchase operations during the tax year. Dividends, including amounts received as a result of holdings of securities in closed investment funds, obtained by individuals, are taxed at a rate of 16% of the gross amount of dividends due.

The objectives of the new tax system are:
- providing higher disposable incomes;
- potential expansion of business;
- increasing direct investment;
- increasing savings and investment;
- reducing the informal economy;
- sustainable growth;
- more jobs.

Fiscal Policy, as part of the state economic policy, includes all regulations on the establishment and collection of taxes and other public revenues, characterizing government options regarding taxes; in another sense, fiscal policy is the fiscal authority's work of taking measures to provide financial resources necessary to meet public consumption and the supply of public goods; furthermore, fiscal policy is also an intervention tool used in order to achieve certain general or specific objectives over a given period of time.

Excessive taxation, of which more and more specialists, but also some autonomous bodies complain, especially economic agents, employees and investors (especially foreign), leads to the economic downturn, and to the poverty of the population.

Most professionals opt for a fiscal policy that would not be directed at the continuous increasing of taxes, but to broadening the tax base, and thus, along with a stimulating drop in taxes (per company or per individual), to increasing the number of individuals and companies that are subject to taxation. This way taxes will decrease and profitability will increase due to an increasing number of investors and higher investments, the number of taxation subjects will increase, as well as the volume of collected taxes, thus generating an increase of public revenues. Thus fiscal policy, by means of using taxes and fees as stimulants of macroeconomic behavior, may result in economic recovery.

Fiscal policy is a very important factor in economic life and its influence and effects on the functioning of the economy must be examined in detail. The importance of this tool is visible to everyone, even people with no economic knowledge or direct implications on the economic system.

This issue is discussed on a daily basis in newspapers, on radio and television: how can we build an active fiscal policy, providing equal benefits to all participants in economic life? How taxation involves a taxpayer's participation in the economic circuit for supplying equipment, but instead of receiving benefits, this policy establishes a partnership relationship between state and tax payers.

Therefore, the effectiveness of taxation requires the harmonization of this relationship, in which each participant must comply with their rights and obligations. It is more frequent that the part which fails to comply with obligations is the state. Starting from not reimbursing the VAT tax granted by the law and the timely payment of the amounts for compensation drugs, to the late honoring of contractual obligations by government budget or state companies, the state is often the worst payer of the economy.

This is especially visible in Romania, where fiscal policy must be rethought and reorganized from the lowest point in order to achieve economic development and strengthen the middle class.

Because, after all, one of the main objectives of fiscal policy is economic growth and the welfare of society, and this can be achieved only through a qualitative and active fiscal vision, by stimulating initiative and by respecting risk taking.

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