

THE IMPACT OF THE FISCAL POLICY (CONCERNING THE DIMENSIONS OF TAXATION) ON THE ROMANIAN ECONOMY AND SOCIETY AFTER 1989

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Abstract:

*We tried to value two methodological principles underlined by the great specialists in economy, sociology and politology in the conception and development of this paper. The first of these principles refers to the unit (interdependence) between the history of the fiscal policies and the types of political power, these ones reflecting in their turn, different genres of human communities (of society). The second principle, in the spirit of which I intended to approach and analyze the fiscal pressure in contemporary Romania, consists in the connection between the general theory of taxation, the essential coordinates of the fiscal policies and the concrete- historical aspects of them according to time and space. The fund drive, the interdependence between the state types, the types of human community and the fiscal policies was thus, expressed synthetically by the **economist and sociologist Joseph Schumpeter**: 'The spirit of a nation, the cultural level, the social structure, the political facts, all these and many others can be found in its fiscal history. The one who knows how to listen this message will understand much better the torments of the human history.' The second methodological principle was exposed, in a much larger concept, by the American economist of Romanian origin Nicolas Georgescu Roegen in the following way: 'The statement that the fundamental principles of economy are universally available can be true only in what concerns their **shape**. Their **content** is determined by the institutional frame. In the absence of this institutional content, the principles are nothing but some 'empty boxes' from which we can get only 'empty generalities'. This doesn't mean that 'the standard theory' operates with empty boxes.*

Key words: fiscal policy, creativity, taxes, education, economical growth

JEL classification: I20, J24, L20, O31

REL classification: 4A, 12C, 16D, 18D

1. Introduction

The taxes represent what we are paying for a civilized society – postulates Oliver Holmes. But if this kind of society doesn't exist in a country or another, in a certain period of time, than its citizens, its persons who pay duties must sustain the historical process of making a civilized society, in consonance with the exigencies and possibilities provided by all that we acquired in time. The governments of the countries have the obligation to formulate adequate strategies in order to achieve this goal.

Referring to the two methodological principles revealed in the abstract, we can affirm that the contemporary society put in front of the theory and fiscal policy new goals. We focused our approach on the changes in the fiscal policy which make possible the sustainable development and the passage to the knowledge-based society. The experiences of the high developed countries and their reflection on standardized strategies can become start points in the design of the strategy concerning the modernization of Romania.

2. Contradictory interdependences (positive, negative, virtuous circles, vicious circles) between the economy dynamics and fiscal policy

The fiscal policy, by the means of the revenues collected in view to sustain the public expenses, represents one of the policies implemented by all the states in order to achieve their goals. Due to the role played in the economy, the public revenues tend to modify the economic and social behaviors of both natural and legal persons.

The variations observed on the fiscal pressure represent a factor which determines the investment discouragement in our country.

In order to set the values associated to the fiscal pressure registered in our country in the last period, we start our approach by presenting the revenues obtained in the last five years.

The weight of different revenues in GDP

Table no. 1

Indicator (thousands of RON)	Year					
	2005	2006	2007	2008	2009	
Revenues to the public budget (1)	17920	25244	32195	36599	40698	
Revenues to the local budgets (2)	9322	13078	15956	19429	27693	
Revenues to the social assurances budget (3)	9725	12404	16167	17047	20311	
Gross Domestic Product (GDP)	151475	197564	246371	287186	342418	
Revenues weight in GDP (%)	(1)	11,83	12,77	13,06	12,74	11,88
	(2)	6,15	6,61	6,47	6,76	8,08
	(3)	6,42	6,27	6,55	5,92	5,93

Source: Calculations realized on the basis of the data gathered from Romanian Statistic Annual from 2007, 2006, 2005; Statistic Monthly Bulletin no. 12/2005, 12/2009

In the table no. 1, we emphasize the distribution of the revenues to the public budget, local budgets and social assurances budget. We can observe that the biggest part of the revenues is focused on the public budget, the total amount being usually double than the other two budgets. The amounts registered to the revenues associated to local budgets and social assurances budget are approximately balanced, the difference being unappreciable. Although, taking into account the year that we referred to, the amounts of these two budgets are different. In 2005 and 2007, the amounts gathered by the social assurances budget are superior to the amounts collected by the local budgets. The situation is different for the other years involved in our analysis, because the places are inverted; in 2006, 2008 and 2009, the local budgets collected bigger amounts than the social assurances budget.

Reported to the value registered by the GDP, the global amounts afferent to the budgets are situated between 24-26%. If we analyze individually these budgets, the revenues collected to the public budget exceed 10%, being situated in the interval 11-13%, the other two budgets being round about 6%.

The weight of direct and indirect taxes in GDP

Table no. 2

Indicator (thousands of RON)	Year				
	2005	2006	2007	2008	2009
Gross Domestic Product	151475	197564	246371	287186	342418
Direct taxes	4185	5019	7585	8962	11542
Indirect taxes	12590	18583	22667	25568	26381
The weight of direct taxes within GDP (%)	2,76	2,54	3,07	3,12	3,37
The weight of indirect taxes within GDP (%)	8,31	9,4	9,2	8,9	7,7

Source: Calculations realized on the basis of the data gathered from Romanian Statistic Annual from 2008, 2006, 2005; Statistic Monthly Bulletin no. 12/2005, 12/2009

Analyzing the information offered by the Romanian Statistic Annual in the table no. 2, we can conclude that the revenues brought to the public budget by the direct and indirect taxes are different, the main part being provided by the indirect taxes. To the same conclusion we arrive by the means of the data presented in the previous table, where the gathering of these two types of taxes makes the observation easier. It is obvious that the weights of these taxes within GDP follow the same trend, the weight of the indirect taxes being superior to the weight of the direct taxes. We didn't find significant evolutions in the analyzed period, the values resulted after calculations being extremely close. In this context, we affirm that the evolution of the taxes and the GDP emphasizes the same trend, while the specific increases of these elements were similar.

The direct taxes detain a weight of 2-3% in the period associated to our analysis, while the indirect taxes reflect a weight of 7-9%, the differences being non-significant.

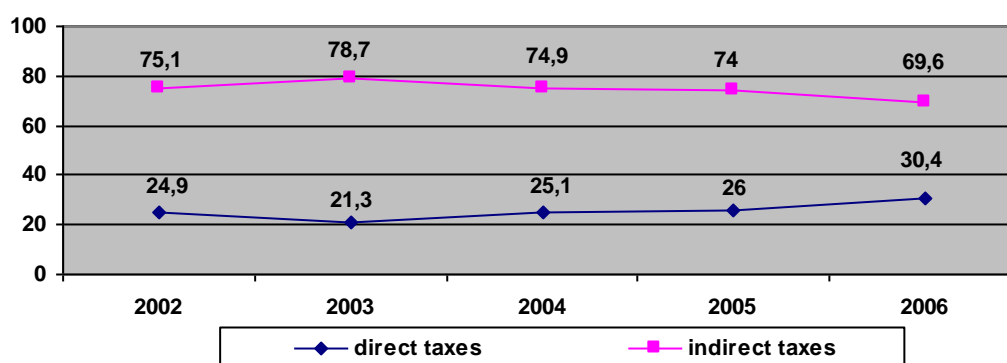


Figure no. 3 - The weight of direct and indirect taxes

Source: Calculations realized using the data from the table no. 2

The weights that the direct and indirect taxes have obtained, referred to the GDP, are considered a reflection of the values which these taxes have registered in the period of our analysis. The data from the table no. 2 emphasizes the fact that the indirect taxes were superior to the direct taxes in every year. The amounts collected for these types of taxes are easier to analyze while they are calculated as a weight having as total the sum of them. If we are focusing our analysis on their weights, we remark that the indirect taxes are three times bigger than the direct ones.

The weight associated to the direct taxes represents 20-30%, while the weight of the indirect taxes is more than 68%. In 2006 we can observe the smallest weight of the direct taxes – 21,3%, the biggest one being found in 2009 – 30,4%, taking into account the first semester of the year. It is obvious that the smallest weight of the indirect taxes can be found in 2009 – 69,6%, the biggest weight being registered in 2006 – 78,7%.

The values registered for the taxes are revealed in the following charts, each chart presenting the weights associated for a certain year. After the introduction of the single quota at 1st January 2005, we couldn't observe evolutions which come into notice. However, we remark an increase of the indirect taxes weight, between 2004 and 2005 being 0,9%, while between 2005 and 2006 being 5,4 %. We can affirm that less one goal pursued by the passage to the single quota was achieved, namely the growth of the amounts brought to the budget by the direct taxes, but also the creation of the framework to develop the legal activities in order to reduce the effects of the black economy.

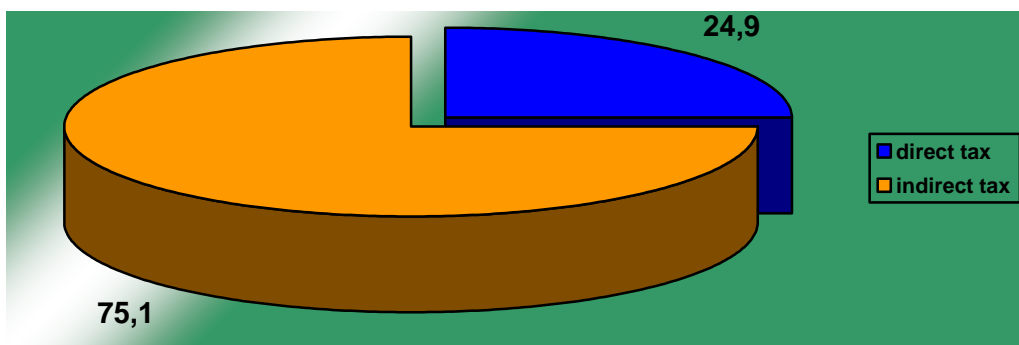


Figure no. 4 – The weight of the taxes in 2005

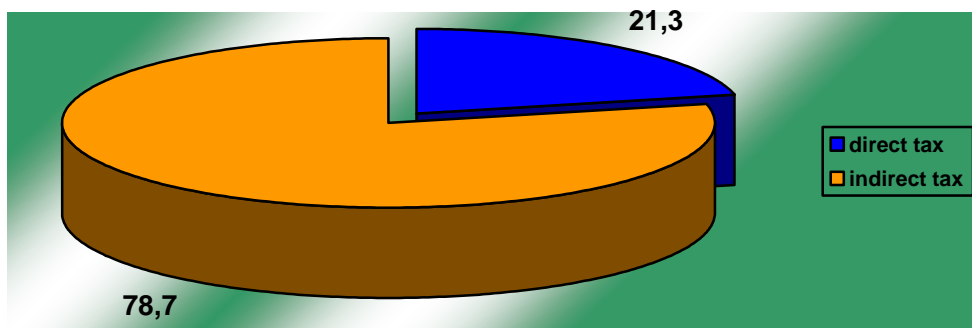


Figure no. 5 – The weight of the taxes in 2006

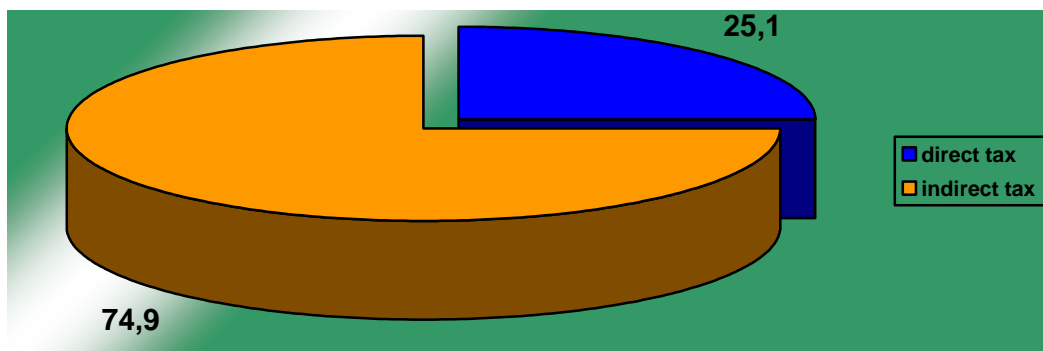


Figure no. 6 – The weight of the taxes in 2007

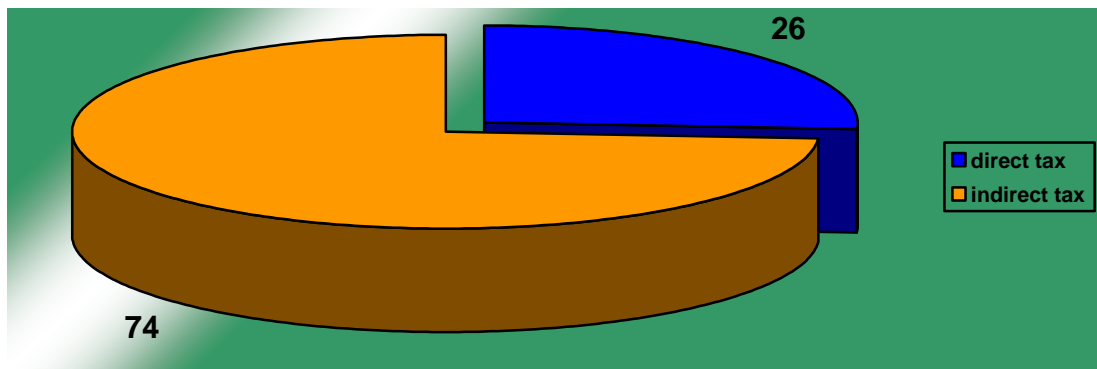


Figure no. 7 – The weight of the taxes in 2008

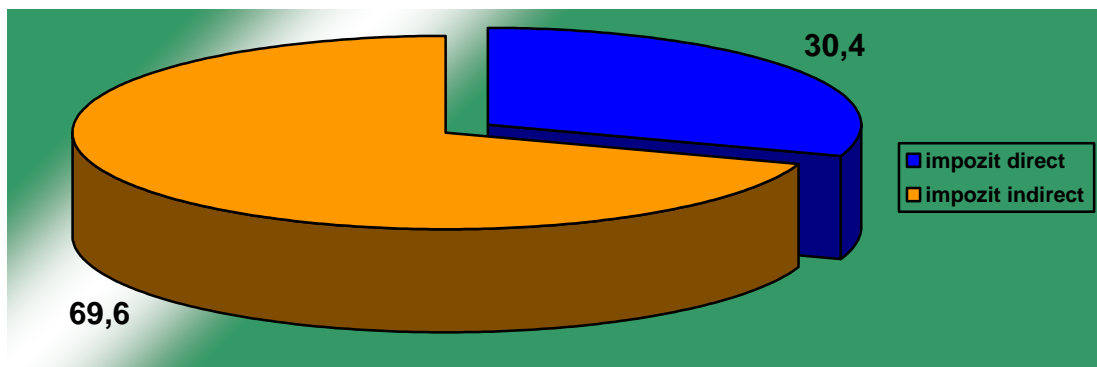


Figure no. 8 – The weight of the taxes in 2009

From the charts previously presented, we can observe more clearly the differences between these two types of taxes. It is important to emphasize the amounts collected by the most representative direct taxes: profit tax and salaries tax.

The weight of profit and salaries taxes in GDP

Table no. 3

Indicator (thousands of RON)	Year				
	2005	2006	2007	2008	2009
Gross Domestic Product	151475	197564	246371	287186	342418
Profit tax	2997	4368	6441	6495	7905
Salaries tax	30	25	16	74	15
The weight of profit tax in GDP (%)	1,97	2,21	2,61	2,26	2,31
The weight of Salaries tax in GDP (%)	0,019	0,012	0,006	0,025	0,004

In the period 2005 – 2009, the profit tax had an ascendant evolution; the difference between 2007 and 2008 is almost insignificant, being represented by the amount of 54.000 RON, while this amount was 2.073.000 RON between 2006 and

2007. The explanation for this surprising difference is the passage to the single quota in 2005, when the quota for profit tax had become 16%.

The salaries tax has a contradictory evolution, as it follows: in the first three years of our analysis, we observe its decrease, then in 2005 it registered a high amount, which represent about the sum of the amounts of the previous three years. From 30.000 RON in 2005, this tax attained 16.000 RON in 2007 and 74.000 RON in 2008. It's true that the national trend in the last years was to reduce the number of employees, which provides an explanation in a certain extent for this evolution.

Net individual fiscal pressure

Table no. 4

Year	Gross salaries	Net salaries	Payment obligations	Net fiscal pressure
2007	825.66	596	229.66	38.53
2008	966.83	737.83	229	31.04
2009	1150	862	288	33.41

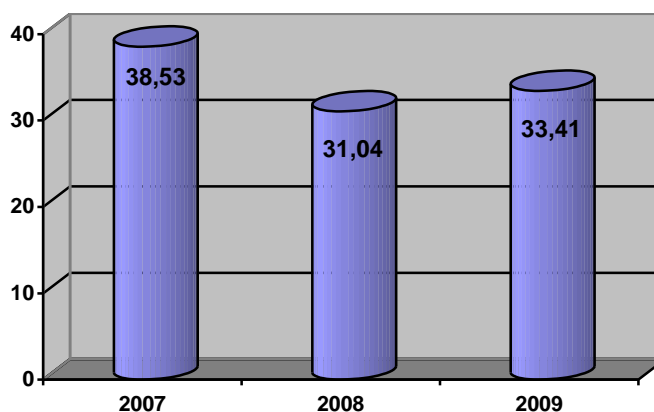


Figure no. 9 - Net individual fiscal pressure

Source: Calculations realized using the data from the table no. 4

We consider the report by means of which the individual net fiscal pressure was calculated is more relevant. Thus, as a result of the calculations, for the three years analyzed, the largest percentage is registered in 2007, that is 38%, followed by 2008 with 33% and 2009 with 31%.

Considering these data, we can easily see that the changes which showed up at the beginning of 2007 in the tax rates lead to a smaller individual net fiscal pressure than in 2006. For 2009, the percentage is found between the two afferent of the previous years, but much closer to 2008 which underlines once again the importance of the changes of the tax rates seen from the fiscal pressure point of view.

At the country's level, the fiscal pressure rate after 1990 is presented in the next chart:

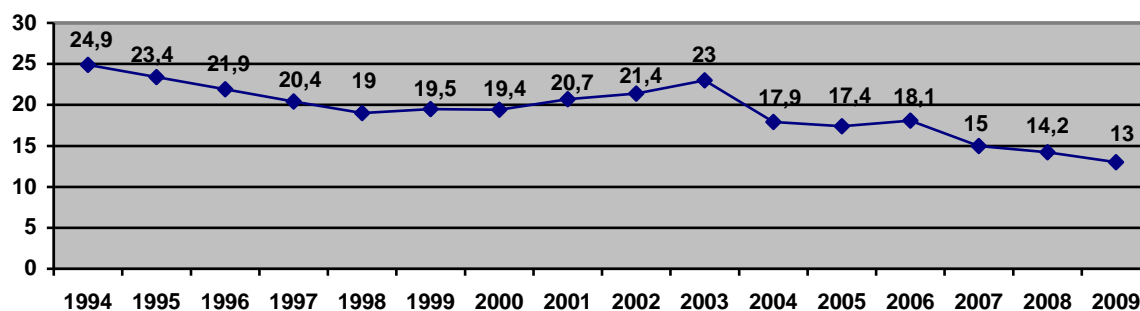


Figure no. 10 – Fiscal pressure rate in Romania in the period 1994-2009
 Source: Romanian Statistical Annual – 1994 – 2009

The fiscal pressure rate has a growing evolution between 1994- 2009, without mentioning some years when we find higher numbers. 1994 is characterized by a high fiscal pressure of 25%, this being the moment this indicator starts to go down even if the 1999 – 2003 interval indicates an increase of the fiscal pressure. In 2003 it gets to 23%, a value which is pretty close to the one registered in 1991, but then, its decrease is obvious getting to 18% in the next year. In 2006, we have a value which doesn't fit in the increasing evolution of the fiscal pressure because it reaches 18,1% . In the following years, the calculated percentages are decreasing, getting to 15%, respectively 14%. It's obvious that the fiscal pressure felt in Romania during and after the transition period, is decreasing.

The economic growth and the fiscal pressure are underlined in the next chart in order to facilitate the comparisons that can be supported starting from the values registered by the two indicators.

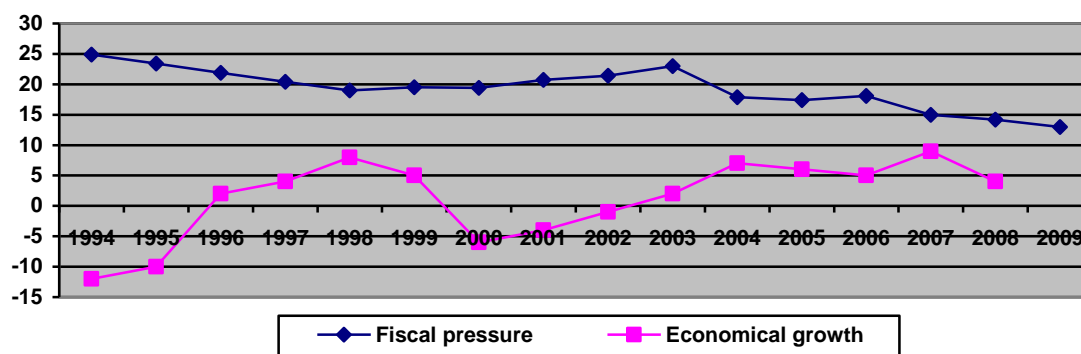


Figure no. 11 – Fiscal pressure and economical growth in Romania
 Source: Romanian Statistical Annual – 1994 – 2009

Between 1994 and 2008, the fiscal pressure and the economical growth had fluctuant evolutions, revealing the fact that the economical growth had an ascendant trend while the fiscal pressure trend was descendent.

First period after 1990 was characterized by fiscal pressure values over 20%, but in decrease trend; the economical growth was ascending, determining a passage from negative terms to positive terms. We observe that the highest economical growth was registered in 1998 – 7,1 %, being completed by a fiscal pressure rate (19%) – the smallest percentage of the period.

After 2002, the economical growth registered evolutions which hold it in the positive amounts zone, the same as the fiscal pressure rate, which had a descending trend.

3. The optimal rate of fiscal pressure – sustainable lever for the economical growth process in Romania

The attempt to reach to an optimal rate of the fiscal pressure requires a great attention, because after our integration in the European Union we must take into account by the regulations, directives and decisions made at the European level.

The fiscal policy represents an extremely important tool whereby the state must achieve the stability of the economy. In the actual situation of Romania, the openness degree in the design of the fiscal policy restrains itself, due to the existence of certain parameters of this policy. In conclusion, the EU requires more financial discipline in the setting of the budget and its execution.

In what concerns the harmonization of the Romanian fiscal policy with the European one, we find the following situation:

- The fiscal policy is non-harmonized, the exceptions are represented by VAT, the duties for fuels, gas, electricity, alcohol and cigarettes;
- The value added tax can't be smaller than 15% - standard quota and 5% - reduced quota;
- There are established minimal levels for one of each product mentioned above.

Romania succeeded to gain a series of derogations namely: the minimal duty for cigarettes will be achieved until 2009, the duty for fuels until 2011-2013, the duties for gas and electricity until 2010, while the duty for alcohol will reduced with 50% in the case of proper consumption.

In the EU, the fiscal pressure is higher than the USA or Japan. It is obvious that there are differences between the EU states, although the fiscal policy must respect certain rules, it represents an element of the states' sovereignty.

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