

CORRELATIONS BETWEEN FISCAL - BUDGETARY POLICY AND THE ECONOMIC DEVELOPMENT IN ROMANIA

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Abstract

Using fiscal policy in order to achieve non-financial targets long is no longer a novelty, the economic development being a priority for any country, the government being interested by the levers that can be used in this sense. In the paper is realised an analysis regarding the level of taxation, the evolution of the main components of state budget and the effects fiscal and budgetary policy on economic development in Romania in the period 1991 - 2011. The conclusion that can be detached is that the formulation a fiscal policy and budgetary on long-term, its correlation with the monetary policy, the ensuring an optimal proportion between consumption expenditures and those for development and avoiding to the financing of public expenditure through loans are elements that ensure the economic development. In Romania, the fiscal and budgetary policies promoted after 1990 have not been correlated with the cyclicity of economic life, being often intended to reduce the conventional deficit.

Keywords: degree of taxation, state budget deficit, fiscal policy, economic development

Clasificare JEL : G38; H 21; H 71

1. Introduction

With the crisis that started in 2008 and does not seem to be coming to an end and the need for financial resources is constantly growing compared to the possibilities of purchase, consolidating and applying sustainable fiscal - budget policies can be a valid solution for the primary problems in the economic and social life of a country. In this context, it is necessary to use fiscal and budgetary levers to stimulate economic development.

Using fiscal policy in order to achieve non-financial targets long is no longer a novelty. Supporting the development of economic processes, preventing or limiting the effects of economic crisis, economic cycle correction, registering high economic growth rates, reducing unemployment, keeping inflation under control, are some of these targets. Obviously, we cannot omit the main objective, namely by creating public funds in an amount that would allow the state to provide public goods and utilities, through its institutions, members of society. But the level of public resources collected is dependent on the degree of economic development. In this context, it is clear that fiscal policy can be channelled for the purposes of conjectural adjustment of the economy, and the beneficial effects are also recorded in reverse: the recovery of economic growth generates a larger volume of financial resources derived from taxes and mandatory contributions, and hence the possibility of lowering the tax burden. Moreover, a flexible fiscal policy, coupled with the dynamics of the factors of influence, is advisable, as rigidity and inadequacy to concrete economic conditions have negative effects [9]. The action exerted by fiscal variables requires the establishment of the number and types of taxes used, the form of taxation, the course of action in using tax adjustment tools (granting tax incentives in the form of discounts, exemptions or deductions) [6]. However, the possibility of directly influencing productive environment should be mentioned, through various measures adopted in order to stimulate saving, and thus investment, law for the tax depreciation process, exemption from taxation of the reinvested profits. Another important aspect is the one represented by the use of fiscal levers for the purposes of registration of social objectives. Thus, encouraging birth, reducing consumption of harmful products, stimulating donations for charity or public interest, reducing disparities between wealth or revenues are just a few actions generating social effects.

The correlation between fiscal - budgetary policy and economic growth was the subject of numerous empirical studies. In this sense, we can mention the results obtained by many authors: Rabushka (1987), Easterly and Rebelo (1993), Engen and Skinner (1996), Ocnean (2006), Fabrizia, Molly (2006), Weller and Rao (2008) , Talpos, etc. (2008), the general conclusion that can be drawn is that fiscal - budget policy may influence economic growth, but more often than not it is a political priority rather than a tool for the purposes of registration of economic effects [7,8,10-13].

Also, a World Bank study (2010) concludes that fiscal adjustments that allow reducing fiscal deficits and reducing public expenditure generate stronger economic growth compared with an increase in taxes [15].

In this paper, we aim to perform an analysis of tax - budget policy in Romania and to highlight the correlation between said policy and economic growth. For this, the paper has two major parts, relating to the highlight of the

developments in the degree of taxation, the budget surplus / deficit and the identification of the effects generated by the fiscal-budgetary measures adopted.

2. The analysis of the level of taxation and the main components of the state budget in Romania

The degree of taxation is a commonly used indicator in fiscal analysis, and our country is no exception in this respect. The ratio between the amounts collected by way of taxes and mandatory contributions and the gross domestic product may provide an insight into the extent to which taxpayers bear the fiscal obligations out of their revenue, but without allowing the identification of the real tax burden registered at one time or another. Fiscal policy measures taken in Romania after 1990 have influenced the dynamics and structure of tax revenues, but also the level of tax burden. An analysis of the level of taxation allows the identification of its sinusoidal trend during 1990 - 2011, but due to a downward trajectory (table no. 1):

Level of taxation in Romania between 1990-2011

Table no. 1

Year	Fiscal revenue (mil lei)	Revenue from direct taxes	Revenue from indirect taxes	Gross Domestic Product (mil lei)	Degree of taxation (%)
1991	47,94	27,89	20,05	220	21,79
1992	129,18	78,94	50,24	600	21,53
1993	365,44	188,05	177,39	2000	18,27
1994	831,88	455,04	376,84	4970	16,73
1995	1245,45	634,06	611,39	7210	17,27
1996	1752,30	853,26	899,04	10900	16,07
1997	4005,09	2051,67	1953,43	25200	15,89
1998	6070,42	2271,42	3796,37	33800	17,95
1999	8501,90	2656,08	5845,82	54500	15,59
2000	11439,45	3147,25	8292,2	70654,10	16,19
2001	13727,71	4114,63	9612,47	116768,10	11,75
2002	16775,22	4185,12	12590,12	151475	11,07
2003	23602,30	5019,3	18582,97	197600	11,94
2004	30252,70	7585,4	22667,3	246372	12,27
2005	34531,20	8962,5	25568,7	287186	12,02
2006	37900,20	11849,3	26050,9	344650	10,99
2007	44824,20	14931,6	29892,6	416006,80	10,77
2008	55133,60	19017,4	36116,2	514700	10,71
2009	48152,9	16796,7	31789,8	491000	9,80
2010	56305,1	14464,6	41840,5	513600	9,63
2011	69527,7	15603,6	53924,1	547829	12,69

Source: www.insse.ro, www.mfinante.ro, personal calculations

It can be noted that there was a reduction from a level of about 35% in 1990 to 12.62% in 2010. The stage analysis of the level of taxation shows a first period, namely 1990-1997, when there has been a continuous decline, of over 18% overall, due to the fact that gross domestic product decreased in its real size, which resulted in a reduction in the tax base. Also in the same period, tax revenues increased by 34.7% while GDP grew by 193.71% in nominal expression. The year 1998 reflects a turning point after which there was a decrease immediately followed by a further increase. Between 2001 - 2003 there is a stabilization at a level of about 11% followed by an increase to 12%. The developments registered are explained by fiscal policy measures, among which may be mentioned: reduction from January 1st 2000 of the profit tax rate from 38% to 25% (for profit obtained from the development of foreign trade was applied a share of 5%), and then to 16%, from January 1st, 2005; a reduction, from January 1st, 2000, of the VAT rate from 22% to 19% and social security contributions from 55% in 2001 to 49% in 2005 and 47.5% in 2006. The period 2006 -2010 reflected a further reduction in the level of taxation due to the manifestation of the economic - financial crisis. The year 2011 marked a new level of tax increase to 12.69% (the GDP growth rate of 6.66%, was clearly surpassed by the fiscal revenue growth rate - 23.48%). The evolution of tax is shown in Figure 1.

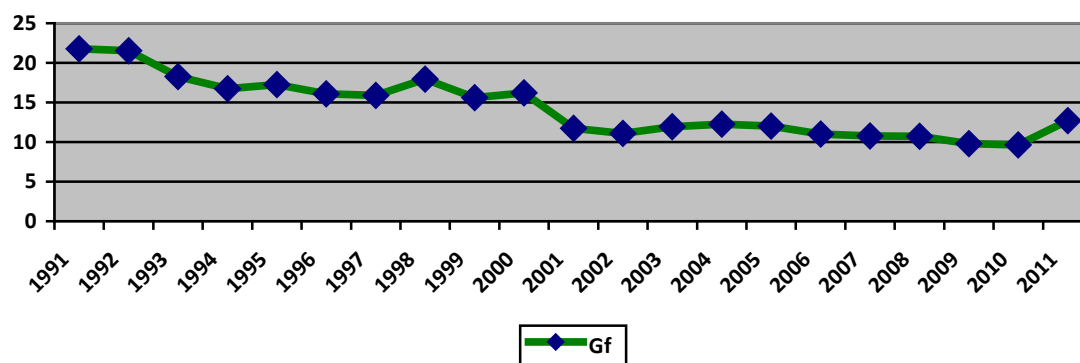


Figure no. 1 Evolution of Taxation in Romania between 1990-2011

In general, the level of taxation in Romania is below the EU average, and the difference is much higher compared to various countries. Obviously we cannot say that the low level of this indicator corresponds to a tax environment which is favorable to the economic environment in our country, but rather to the calculation method of gross domestic product, increased tendency to evade tax, low level of revenue collection, etc. Thus, if in countries with high taxation, the remaining income to the taxpayer, it is sufficient to meet its needs, this is not true for Romania, where although the tax burden is low and is applied to low income, the balance available to the taxpayer is not sufficient for a decent living. Also, the countries with a high taxation offers instead goods and services in sufficient quantity and quality to reduce the real perception of the tax burden, what we do not believe that happens in Romania, where taxpayers' perception is that money paid at State do not come back [5] .

By most times, businesses and people complain of excessive taxation of labor, fact which causes a decrease in the number of jobs and the work undeclared. At the same time, the large number of taxes imposed on the taxpayer and also the legislative instability were elements that had emphasized unfavorable perception regarding the level of taxation. Obviously, the high level of this indicator is the result of a whole range of factors, the most important ones being: the high volume of public expenses, economy capacity of registering a strong economic growth, efficient use of the resources collected from taxes and duties, property structure, degree of tax payers conformation in order to accept fiscal tasks, use of public loans for financing the inefficient public expenses. In addition, it must be analyzed in comparison to the general effects. Thus, at a high level of mandatory fiscal samples it has negative effects on investments, economies or work [4]. The avoidance of imposing, risk of increasing the inflation rate, social movements or the decrease of the competitiveness level of Romanian products on international markets are the results of a hostile fiscal environment. Taking into account the aforementioned information, we can surely state that: most of the budgetary expenses are financed on the revenues coming from taxes and duties. Yet, the try to increase fiscal revenues with the aim of financing the budgetary deficit remains a controversial discussion because of the opposition to a high level of the fiscal system. A small available revenue after paying the fiscal obligations remains an element, which generates the consumption decrease, a fact that can negatively affect the entire economy. In the same time, financing the budgetary deficit by stimulating the taxable base (reduce the tax rate, grant of subventions) can be beneficial if the difference between the moment of implementing the measures and the achievement of positive results is not so big. In order to highlight the concrete situation registered in Romania, an analysis must be carried out concerning the data related to the consolidated deficit of the general (Table no. 2).

Most of the time, businesses and people complain about an excessive taxation of labor, which caused a reduction of jobs and an increase of undeclared employment. At the same time, the high number of taxes and duties established for taxpayers, as well as the legislative instability were elements, which have emphasized the unfavorable perception regarding the degree of taxation.

Dynamics of revenues, expenditures and state budget deficit in Romania during 2000-2011

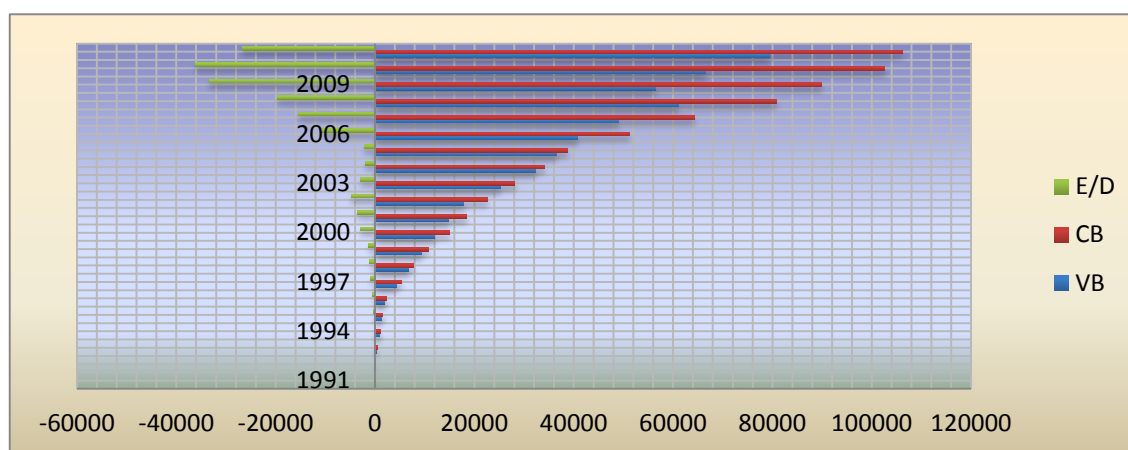
Table no. 2

Year	Total budgetary expenses	Percentage of total expenses in GDP	Total revenues	Percentage of total revenues in GDP	Deficit	Surplus/ deficit
0	1	2	3	4	5	6
1991	53,79	24,45	49,68	22,58	-4,11	-1,86
1992	162,7	27,12	136,39	22,73	-26,31	-4,38
1993	412,88	20,64	379,2	18,96	-33,64	-1,68
1994	1093,03	21,99	886,01	17,83	-207,02	-4,16
1995	1585,8	21,99	1288,8	17,86	-296,97	-4,11

0	1	2	3	4	5	6
1996	2373,2	21,77	1837,28	16,86	-535,92	-4,91
1997	5289,66	20,99	4383,45	17,39	-906,21	-3,59
1998	7761,66	22,96	6721,55	19,89	-1040,1	-3,07
1999	10688,67	19,61	9323,98	17,11	-1364,69	-2,5
2000	14916,8	21,11	12034,2	17,03	-2882,6	-4,07
2001	18401,2	15,76	14820,9	12,69	-3580,3	-3,06
2002	22682,4	14,97	17920,6	11,83	-4761,8	-3,14
2003	28145,1	14,24	25244,7	12,77	-2900,4	-1,46
2004	34073,5	13,83	32195,4	13,06	-1878,1	-0,76
2005	38782,4	13,5	36599,5	12,74	-2182,9	-0,76
2006	51235,6	14,86	40698,1	11,80	-10537,5	-3,05
2007	64373,5	15,47	48984,6	11,77	-15388,9	-3,69
2008	80886,4	15,71	61151	11,88	-19735,4	-3,83
2009	89851,7	18,29	56434,8	11,49	-33416,9	-6,80
2010	102627,7	19,98	66546,5	12,96	-36081,2	-7,02
2011	106088,7	14,49	79371,2	19,36	-26717,5	-4,87

Source: www.insse.ro, personal calculation according to the registered data

Evolution of the components of state budget can be graphically underlined as follows (figure no. 2):



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Figure no. 2 Evolution of the components of state budget in the period 1991 - 2011

We can easily observe the increasing tendency of budgetary expenses after 2007, the rhythm being much higher than that of the budgetary revenues, fact that has determined a widening of deficit in the period 2007 - 2010. The concrete situation does not enable to verify the hypothesis that the budgetary balance must be pursued at the level of an economic cycle and not at the level of a year.

Another aspect that should be mentioned is the need to correlate the fiscal policy with the budgetary policy. Thus, the idea of the Chicago School monetarists led by Milton Friedman, to reduce tax system and budgetary expenses represented a recovery solution for many countries in the period 1980-1990. Romania did not attempt to apply such a policy, showed also by the chart of the specified indicators evolution (Figure 3).

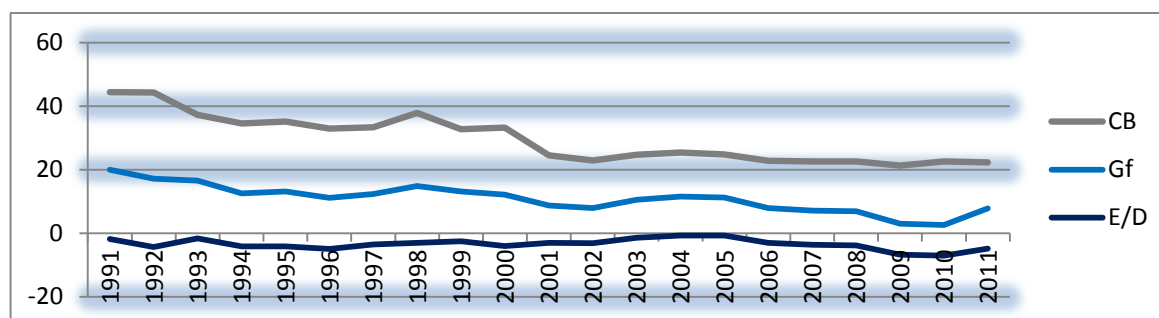
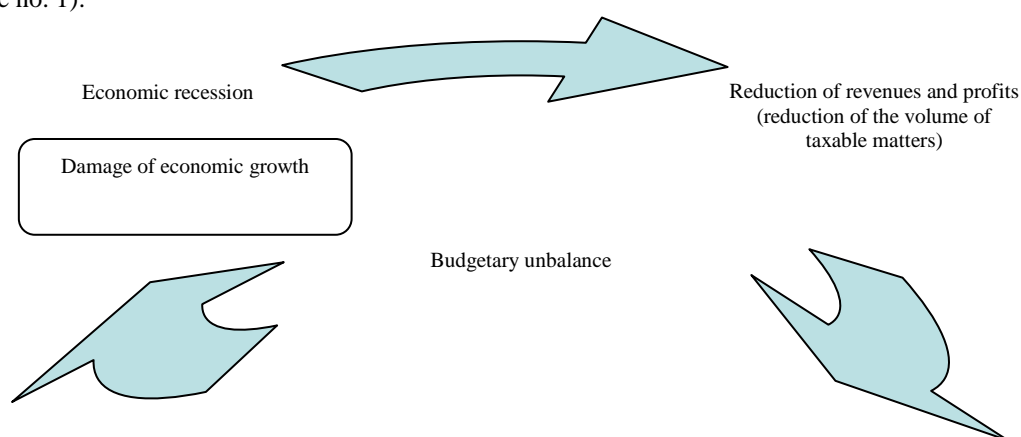


Figure no. 3 Dynamics degree of tax system, expenses and budgetary deficit in Romania in the period 1991 - 2011

We can notice that the reduction the degree of tax system was accompanied by a high budgetary deficit due to the decrease of the volume of collected resources and the increase of public expenses. Practically, it confirms the hypotheses that the change of fiscal and budgetary policies can influence the economic activity, but, in the same time, we can consider that fiscal-budgetary policies promoted in Romania after 1990 were not correlated with the economic life cycle, often aiming to reduce the conventional deficit.

3. Economic effects of fiscal and budgetary policy

Due to the volume of concentrated resources, the budget remains an important tool in achieving the objectives of the economic and social policy. It is considered a mean through which the allocation and redistribution of resources are performed, enabling the adjustment of economic and social activity. The budgetary - fiscal policy and monetary policy have a direct impact on the budget balance. At its turn, through the manner of allotting and redistributing the resources, it can influence the economy. Practically, the budget is considered a tool through which the allocation and redistribution of resources are performed and is useful for the process of adjust the economic and social activity. Therefore, the budgeting process, the allocation of resources and the size of budgetary deficits are essential in ensuring a balanced development of economy. In time, the budgetary deficits can affect economic growth and also the living standards of people (there are influenced investments, capital stock growth, the economic capacity to produce goods and the level of unemployment, the volume of revenues realized by the population) [1]. A correlation between the aforementioned elements can be outlined as follows (scheme no. 1):



Scheme no. 1 Interdependencies between the economic growth and the budgetary deficit

The registration of a budgetary unbalance requires appropriate measures in order to reduce it, namely: reduction of budgetary expenses, loans, increase of the tax system degree or extension of taxable base, currency issue, capitalization of assets or privatization. If the first two measures involves difficulties or shortcomings (the reduction of budgetary expenses can generate social and economic tensions and the loans lead to future payment obligations, the case of Romania, whose gearing increased, the current refunds having a significant level), the increase of degree of tax system seems a much easier method. Yet, we cannot omit the effects of such measure on the future economic growth. In fact, we believe that the mechanism of "inflationary spiral", transposed at the level of the two components, acts as an economic-fiscal spiral (economic growth - higher tax revenues - lower tax pressure - stimulation of economic growth). Fiscal policy can become a useful tool within the overall policy promoted by a state as long as the answer to the adopted measures is favorable. In this regard, there can be summarized some aspects on the measures adopted in the legal regulations, their impact and also the performance conditions (table no. 3).

Potential fiscal measures at the level of the most important taxes, their impact and performance conditions

Table no. 3

Instruments	Adopted measures	Impact	Performance conditions
Profit tax	- Regulation of the accelerated amortization - Grant of exemption or reductions - Regulation of the intervals of fiscal obligation payment	Encouraging the investments	- Small differences between the change of normative documents, approval and implementation - Simplification and not complication of fiscal mechanism
Income tax	- Reduction of tax rates - Use of taxation in tranches	- Increase of available revenues - Reduction of fiscal burden	- Use of supplementary revenues for investing them - Optimization of the report efficiency/social justice in implementation
VAT	- Reduction of tax rate	- Encouraging the economic growth - Reduction of inflation	- Effective reduction of prices - Increase of the demand for products whose prices were reduced

Practically, we can observe that the adopted measure does not always have the expected effect, this being influenced by the accomplishment of particular conditions. In addition, it should be borne in mind that significant tax increases are more likely to generate economic recession than cutting public spending [2] .

5. Conclusions

The link between budgetary-fiscal policies and economic policies cannot be contested. Their use in order to ensure the allotted state role can be effective but can also have negative effects. In many cases, the fiscal-monetary and budgetary mechanisms used in process of economy stabilization does not manage but to introduce higher distortions. The general conclusion that can be drawn from the analysis are consistent with the issues arising from the analysis of research in the field. In this sense, we can say that economic development is determined by the cumulative action of several factors, the fiscal policy being one extremely important. But often, the policies implemented to mitigate the effects of the financial crisis started in 2008 had many errors. The situation of the Romanian economy is suggestive in this regard. Thus, there can be observed a number of specific issues of the used fiscal system and of the generated effects: pronounced legislative instability, which has led to difficulties in implementation; registration of high fiscal deficits that led to the unhealthy economic growth; adoption of a restrictive fiscal policy or of some inadequate measures in difficult times from an economic point of view; strong growth tendency of external debt volume; inequal distribution of the tax system; application of disparate policies, focused on specific, uncorrelated, short or medium term objectives, and not on a sustainable policy with long-term effects, so that it can provide and economic and social development comparable to that of other European countries .

Consequently, it is mandatory to provide an improvement of the degree of collecting resources from fiscal liabilities, reduction of the tax system degree by decreasing the rates and especially the expansion of taxable base, adoption of some measures which would encourage the economic growth, saving and investments, stimulation of work, reduction of the underground economy, improvement of the report between direct and indirect taxes (the Romanian authorities have excessively oriented towards the indirect taxation due to its advantages), elimination of arrears, public expenses efficiency, avoidance of ambiguities in the legislative provisions, etc. Also, there are elements that provide economic development such as: ensure a stable context for the economy through fiscal and budgetary policy formulation on a long-term and its correlation with the monetary policy, ensure an optimal proportion between the consumption expenses and those for development and avoid the financing of public expenses through loans (because of the exceeding of the existing resources).

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