POST-CRISIS FISCAL DILEMMAS IN ROMANIA

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Abstract

This paper represents a synthetic exposure in critical note of some aspects of fiscal policy after the economic crisis in Romania. The paper aimed to analyze several topics related to taxation that are found in current debates in Romania, in the context of the need to establish a coherent legal framework compatible with sustainable economic growth. I considered pointing the moral aspects related to taxation, analysis of the tax-expenditure tandem and criticize the prevalence of the Keynesian approach to fiscal policy in Romania. From the research method point of view, the approach is a qualitative one, in a praxeological note based on economic argumentation. This paper is not intended to provide advice on fiscal policy, but to expose the necessary ideas for understanding its implications.

Key words: *fiscal policy, taxes, public spending, Romania*

JEL Classification: H20, H30, H60

1. Introduction

The fiscal policy in Romania is obviously a cyclical one (in the mainstream sense of cyclicality, which is based on the existence of a gap between aggregate demand and aggregate supply). If during the boom was decided the imposing of a flat tax of 16% (2005) and increasing wages (2007), the recession had been accompanied by severe measures that reduced the budgetary wages by 25% and increased VAT from 19 % to 24% (2010). Post-crisis resumption of growth brings to questions about the opportunity and the sustainability of fiscal relaxation, in the context of maintaining the budget deficit commitments implicated by the relations with the European Union and the International Monetary Fund. The legislative proposal amending the Fiscal Code provides, inter alia, reductions of value added tax, of social security contributions, of taxes on dividends and excises. These proposals were rejected by the Fiscal Council (Dumitru, 2015) and Romanian National Bank (Isarescu, 2015) because of an alleged destabilizing effect on public finances and the impossibility of respecting the European treaties about fiscal governance. On the other hand, there are voices who claim the tax relief opportunity in order to provide a breath of oxygen needed by the private economy, while pleading for less and more efficient budgetary expenditures (Glăvan, 2015) (Cîțu, 2015). This is the ideatic framework in which the paper proposes a brief statement of some issues regarding the taxation and the role of fiscal policy with reference to present situation in Romania.

I will resume some cliché topics about tax morality and I will discuss the efficiency of fiscal stimulus in ensuring post-crisis growth, as well as the risks of overheating a growing economy, in the context of lower taxes that stimulate consumption.

2. “Moral” aspects of taxation

Discussions about taxation are invariably held around some principles involving morality, as social justice, the size of taxes, the division of tax burden, the equality of sacrifice, the transparency of taxes or the property rights. Murray Rothbard argues that "economics cannot assume any principle of just taxation" (2004), because the taxation itself is unjust. Moreover, the social justice, in whose name taxation is often justified, proves to be a meaningless concept as long as "only human conduct can be called just or unjust " (Hayek, 2015). Nor the equality of sacrifice can be a solid concept for tax morality, because it is impossible to quantify and compare the sacrifices borne by different individuals, which are essentially subjective (Salin, 2015). In this context, it is impossible to imagine that we can conceive a tax system, no matter how clever it will be, that would bear the attribute of being "just".

Without developing the argumentation that claims that taxation per se cannot be built on fairness and morality, considering that on tax matters we cannot speak too much about the freedom of individual choices, I will make some references to a series of classical minimum rules of taxation. Although they are often seen as a price paid for access to public goods, taxes are not the result of a voluntary exchange between individuals and the state. Rather, when we talk about taxation, the right word is coercion. The individual is forced to pay for the goods and services whose quantity and quality cannot be chosen. Taxation, defined by J.B. Say as „taking from individuals a part of their property for public purposes" can be considered as „a violation of property right" (Say, 1803). Frederic Bastiat, although he didn't see taxation as an invasion of property as long as the state acted justly for the public safety (Meredith, 2009), opposed the use of taxes to subsidize unprofitable activities and to support the poor. Taxation for forced charity is considered theft, the proposed moral principle being that of „legal justice, private charity" (Bastiat, 1850). If state spending can be seen, being possible on the account of collected taxes, taxpayers spending cannot be seen, because they "are prevented to make them" (Bastiat, 2011).

Adam Smith (1776) said that taxes should be „certain, and not arbitrary" and regarding their size that „every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state". J.B. Say believed that the least bad taxes are those that are „the most moderate in their ratio", are „the least attended with those vexatious circumstances, that harass the tax-payer without bringing any thing into the public exchequer", „press impartially on all classes", are „least injurious to reproduction", and that are „rather favourable than otherwise to the national morality; that is to say, to the prevalence of habits, useful and beneficial to society" (Say, 1803).

Of course, morality has nothing to do with the majority rule (Salin, 2015), even if the "institutionalized" robbery, as opposed to the" high road" plunder, does not generate consciousness problems for one nation's members. The recourse to judgments involving morality is often met at Pascal Salin (2015), who identifies different destructive, predatory, immoral and harmful or unfair taxes. The reduction of fiscal pressures appears to be the only measure able to eliminate all these problems for taxpayers.

3. "Individual" taxes and governmental spending

The reduction of the taxes is discussed within the academic and political environment from the perspective of its effects on the consumer spending and the governmental budget. The concern for an "excessive demand" (Dumitru, 2015) following the increase of the incomes which are available to individuals is justified from the perspective of the increase of inflationary pressures and the risk for deterioration of the commercial balance. At this point it is essential to make several comments related to the topic of the excessive demand. In fact, the cited author himself states on page 8, while referring to a study signed by Cournède et al. in 2013 that „the taxation of the consumption is deemed by the specialized literature to be among the categories of taxes which have the lowest influence on the economic growth on the long term". The same conclusion is also reached in the PriceWaterHouseCoopers study from 2009, which concludes that the reduction of the VAT "has had very little impact on consumer spending". Moreover, consumer spending will significantly change only if the individuals are convinced that such measure is a permanent one (Steindel, 2001). A third reason against the occurrence of excessive demand refers to the fact that it is not necessary for the revenues increase to be directed towards consumer spending, while the possibility for an increased preference for saving is disregarded. After all, the increase in saving is the basis of the capital accumulation processes, being the only sound basis for economic growth. However, the reasoning which lies in the center of rejecting the possibility of an excessive demand is based on Say's law which, in its undistorted meaning, states that the demand arises from production. The revenues obtained following the production processes are those which support the demand for consumption. The excessive demand for the consumption of goods may be created only by expansive monetary policies, by the existence of an excessive monetary supply (Horwitz, 1997). The business cycle is the sum of expansive and restrictive monetary policies, not a consequence of the varying evolution of individual consumption.

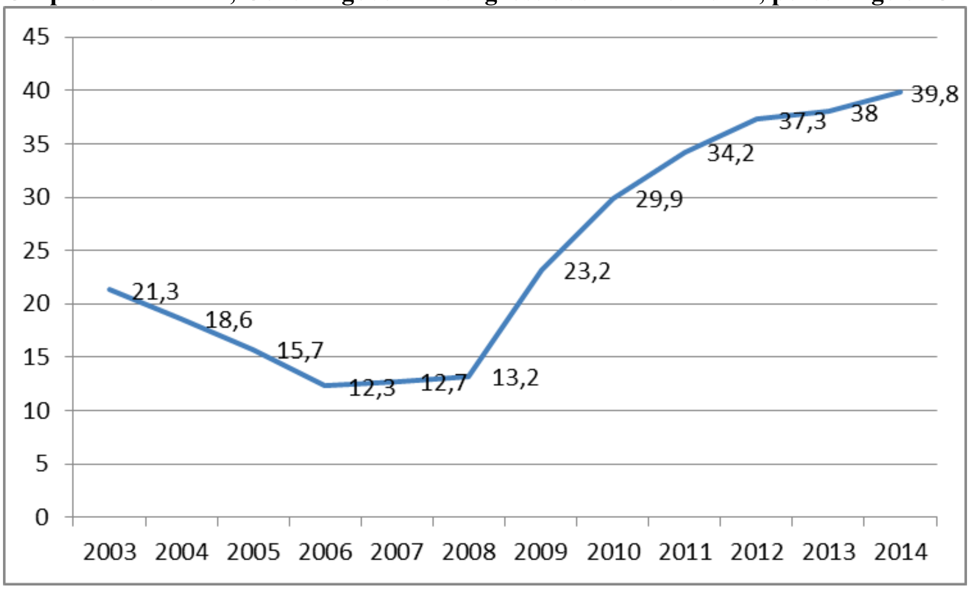
The reduction of taxes means that the individuals will be able to use a larger portion of their own incomes according to their own needs, in order to consume or to save/invest, while there is nothing excessive here. If today the increase of private consumption generates concern, a year ago the governmental officials supported the need for stimulation thereof, however by monetary means (Isărescu, 2014), (Voinea, 2014). We are somehow witnessing a lack of consistency of the macroeconomic policies, as long as the monetary policy aims to stimulate consumption while the fiscal policy aims to confiscate it.

The concern to avoid a new economic boom would involve an increased degree of attention paid to the policies which generate illusions, distorting the productive structures via the change of the relative prices. In this regard, a fiscal policy which leaves a greater part of the incomes at the disposal of the individuals cannot falsify their time preferences for the current and future consumption (saving), while the expansionist monetary policy artificially creates demand by increasing the degree of indebtedness. Moreover, the decrease of the taxes "increases the degree of reasonability of the economic decisions for the very reason that the market, and not the government, will provide the allocation of the resources" (Glăvan, 2015). This happens as the knowledge is spread among the individuals (Hayek, 1945), not being available to the thinking of a planner, no matter how well-informed and well-intended he or she is. Thus, the reduction of the fiscal pressure offers the individuals the liberty to decide on the best use of their own resources.

The reasoning in the Keynesian macroeconomic paradigm makes the Romanian fiscal policy to be approached in terms of the fiscal stimuli efficiency, while the concerns for the favorable effects of fiscal relaxation on the individual level have been replaced by the concerns related to potential budgetary deficits. The reduction of the taxes is meant to generate a budgetary deficit of 3.2% of the GDP and, given that the government has already announced the increase of the state workers' salaries, this will mean a deficit of 4.6% in 2016 (Dumitru, 2015). We are somehow witnessing a paradox related to the possibility of taxes reduction at the same time with the expenses increase. Such a mix would be possible, without deepening the budgetary deficit, if the fiscal relief will stimulate the collections to the state budget, increasing the production and reducing evasion.

Total tax rate in Romania is 43.2%, above the world's average of 40.9% and way above the 27% rate in Bulgaria (Paying taxes, 2015). Romania is a country with a high weight of underground economy in the GDP, with a low fiscal morality and a reduced percentage of tax collection (58%). High taxes on labor, low life standards, poor public services, the bureaucracy and corruption (Romania ranks 69th in the top of Corruption Perceptions Index 2014 prepared by Transparency International) are the main causes for Romanians preferring black market activities, and moreover for the low collections to the state budget. The Fiscal Council estimated tax evasion to 16% of the GDP in 2013. At the same time, the governmental debt has increased at a rapid pace since 2006, reaching the peak of 39.8% of the GDP in 2014. It is hard to believe that the public spending can replace private spending, even if a climate of relative skepticism of the economic agents is kept. In the best case scenario, governmental spending can offer sidewalks to those who wish to have biscuits.

Graphic 1 Romania, General government gross debt - annual data, percentage of GDP



Source: own representation using Eurostat data

The discussion about the taxation in Romania cannot be limited to the tax reduction (a measure which is favorable to the individuals and, moreover, populist) and the cutting of governmental expenses (a measure which is not favorable to certain social categories, therefore, not popular). Tax reduction cannot be limited to the possibility to stimulate budgetary revenues, by encouraging certain black market businesses to embrace a legal activity. Even though the appeal to a simplified representation of the relationship between the taxation rate and fiscal revenues, by Laffer's curve, argues that the reduction of fiscal pressure, by means of widening the taxation basis, can provide additional revenues to the state budget, the mathematical calculation needs to be performed after the economic analysis. The impact calculations, the persistence in the measurement of the assumed positive fiscal multipliers neglect the fact that the relationship between the variables is not based on empirically set laws. Statistics presents information relating to the history of the economy. It cannot lead to economic theories, according to Mises' Human Action.

The reduction of the taxes, which is meant to stimulate private consumption, is most often regarded with skepticism due to the uncertainties of the political decision makers in relation to the way individuals will choose to use their additional revenues. The "knowledge" of the economists is not the same as "knowledge" of the acting individuals. The fiscal relief will leave more revenues at the disposal of the individuals, who may direct them towards consumption (hence the concern for economy overheating) or towards savings (hence the concern for the stagnation or reduction of the demand). The possibility to shifting the revenues obtained by reduction of taxation from consumption towards saving is the reason for the political decision makers' preference for the increase of governmental expenses, an instrument which is easier for them to handle. In both scenarios, the uncertainty is the dominant constant, even though it is well hidden behind some calculations and estimations.

The true stake of fiscal relief lies however in the governmental expenses. Their reduction means a smaller role played by the state in the economy and an acceptance of the fact that the public expenses are diversions of the private resources. The national production cannot increase following the stimulation of the governmental expenses, as these are nothing else but uses/destinations of the gross domestic product. The public expenses do not generate well-being, but they arbitrarily distribute the well-being created by the actions of the individuals. The public expenses are political instruments which defy the rule of opportunity costs required by the rarity of the real resources.

The approach of taxation needs to consider the human dimension of the taxable "sources". The individual is the only one to efficiently allocate the obtained resources, according to his/her own needs. Even if on a short term fiscal relaxation may deepen the budgetary deficit, "the increase of public debt may be considered the equivalent of the financing of a highly profitable investment that is the investment in the fiscal reform" (Salin, 2015). Moreover, according to Pascal Salin, the reduction of taxes is "the best public investment".

4. Conclusions

Fiscal policy in Romania lacks coherence, stability and predictability, the fundamental principles for a good functioning of the economy. The fiscal policy makers are caught in a mathematical trap, without giving enough credit to economic "calculus". Ensuring a coherent and stable fiscal framework, reducing tax burden and bureaucracy are able to boost production and productivity of undertakings. The discussions about taxation bring to the forefront the subject of the role of the state in economy. The tax relief must be linked to the less populist and more drastic measure to reduce government spending. The compliance with the commitments undertaken by Romania regarding the public debt and the budgetary deficit requires a rethinking of the public spending. The certain benefits obtained by individuals in an economic environment characterized by fiscal relief overcome the constraints of a budgetary discipline, given the lack of public expenditure efficiency and their inability to stimulate the real economic growth.

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