

COORDINATES OF THE ROMANIAN FISCAL POLICY IN THE CONTEXT OF EUROPEAN INTEGRATION

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Abstract: The moment of EU extension to the east at the 1st of January 2007 is extremely important in the recent Romanian history. A feeling of self satisfaction has unfortunately come upon Romania like the one specific for a person who can rest in peace until the destination after hardly catching an important train. For Romania, a country behind the present times, the only chance is a long term economic growth, approached in an European context, by focusing the economic, monetary, currency and fiscal policies towards the achievement of a lasting economic growth. The Union works for the durable development of Europe, based on a balanced economic growth and prices' stability, on a highly competitive market economy, which targets the employment of the entire workforce and the social progress, as well as for a high level of environment protection and quality improvement[....]. This promotes the economic, social and territorial cohesion but also the solidarity between the member states as the article n. 2 of the Treaty concerning the creation of the European Community stipulates.

Fiscal policy – definition

The Government three obligations, described by Adam Smith 200 years ago: “first, the duty to protect the society from the violence and invasion of other independent societies; second, the protection, as much as possible, of each member of the society from the injustice or persecution done by other member or the duty to install the correct administration of justice; third, the duty to rise and preserve certain public works and institutions that must not ever be in the interest of one person or a small number of people, to build and maintain them, because the profit for a great society can be much higher than covering the expenses” [Adam Smith, 1998] are still actual in nowadays, compelling the states to collect important funds in order to fulfill in good conditions the government's obligations.

By the fiscal policy we understand “the assembly of decisions on which the structural modeling of the fiscal system is done, the assurance of its functionality, in order to obtain the finalities desired by the public decision taker in the economy” [Mosteanu Tatiana, 2003].

The public decision taker in the economy follows a entire series of objectives when he choose the right fiscal policy through finances the participative role of the economic agents to the forming of the state budget is covered, depending on their economic force and capacity and the recognized financial rules, in order to finance some public expenses related to human resources, life quality, culture, art, social aids, social assurances and social protection, public order, defense etc.

The fiscal policy finalities are influenced by the evolution of the state's role, determined by political elements, by the permanent transformation of the social environment, the change of public environment and the state's obligation assumed on the international plan, like the case of the integration in the European Union.

The financial finality is preponderant, being unanimously accepted like a side of the fiscal policy and fiscal system because taxes, imposts, the whole fiscal system, represent 80% of the public budget's money resources.

The economic-social finality also controversial, can not be ignored, in spite of the differences of opinion, and the economic-social impact is an important one. Two currents of thinking can be individualized and be object for debates:

- a) the imposts' neutrality;
- b) the acceptable limit of the fiscal pressure.

This are added to the problems of the fiscal fluxes.

The main conceptions about the fiscal policy have evolved along the time as follows:

A. The classic doctrine of public finances (Adam Smith, D. Ricardo etc.) - has sustained the imposts' neutrality and rejected the states interfering in the economy's regulation. The classics considered the state's role is limited to the expenses financing. The idea of neutrality has known the following approaches:

- elimination of some fiscal privileges and the pass to the universality of the taxes;
- the influence of taxes and fiscal techniques on the capital and sparing.

B) Thinking currents which recognize that state must not be left outside the economy (*Keynes – the interventionist economic school*). The impact of the imposts on the governmental decision is taken in consideration (they can be used for the state's intervention upon economy). The *Neokeynes adepts* (Hansen, Paul Samuelson), the representatives of *the prosperity economy* (A. Pigou) and the representatives of *public economy* [Richard Musgrave, H. Brochier, P.Tabatoni, A. Barrer] are supportes of the necessity to correct economic balance lacks by public decisions.

C) The modern doctrine defines the providential state and interventionist state, which use the fiscal policies to acquire the established finalities. In this doctrine the influence of imposts on the following aspects is maintained:

- modification of the resources' distribution in the society;
- incomes' repartition;
- regulation of the conjectural fluctuations.

To international level the fiscal policy has known two approaches:

- the European continental approach, according to which the fiscal takings are formed from imposts, taxes and contributions, existing some conceptual differences regarding the contents;

- the Anglo-Saxon approach, according to which the compulsory fiscal takings include all the elements of fiscal nature, known as taxes, their role being to assure the largest part of the public budgets' incomes, a conceptual differentiation of those from the contents' point of view non existing.

If in the Anglo-Saxon approach, the compulsory fiscal takings, nonrefundable and without counter-performance from the state, are included, in the European continental approach, the fiscal system includes besides the imposts the taxes acknowledged as payment made by physical and juridical entities for the services given to them by the public institutions, but also the contributions acknowledged as a value transfer, compulsory at the state's disposition without equivalent, with definitive title and with a strictly defined destination.

From the point of view of fiscal policy's impact on the macroeconomic balances, there are many types of fiscal policies:

- very relaxed fiscal policy or with strong expansion;
- relaxed fiscal policy or with moderate expansion;
- neutral fiscal policy;
- restrictive fiscal policy or with moderate adjustments;
- very restrictive fiscal policy or with strong adjustments.

The fiscal policy will integrate in the assembly of macro economical policies, being subordinated to the general targets aiming the lasting relaunch of the internal production, its growth of international competitiveness and the apparition of a favorable business environment, stimulating the private sector and foreign investments. The approach of the fiscal balance lacks will facilitate the consolidation of the economic liberalization and structural reforms, reducing the budget's addiction to measures which bring distortion effects.

The policy will be elaborated respecting the following principles, meant to assure the fiscal policy integration within the other economic polices:

- promoting the measures that will maximize the social welfare on long term and not these measures that tend to minimize the social costs of the reform on short term;
- reducing the state's intervention in the economy;
- resizing the report between long term and short term objectives of the economic policy in favor of the last ones.

Medium Term Objectives

From the perspective of competitive economy consolidation, the fiscal policy will harmonize the strictnesses of the macroeconomic stability with the objective of a lasting relaunch of the economic growth. The fiscal policy will contribute to the encouragement of saving and investments. The priorities of the medium term fiscal policy are:

- the control of the budgetary deficit;
- the consolidation of the taxes system reformation;
- the increase of operational and allocative efficiency of budgetary expenses;
- the amplification of the fiscal transparency.

Budgetary Deficit

Romania comparison with other countries regarding the size of the budgetary deficit is mainly irrelevant. From the perspective of reducing inflation, what really matters is not the size of the budgetary deficit but the possibility of financing it noninflationary. The deficit must be limited to 3 % at most from the gross internal product in conformity with the strictnesses of the macroeconomic stability.

The budgetary deficit will be controlled by measures aiming at:

- sizing the budgetary expenses in report with the income sources and noninflationary financing sources from the governmental sector;
- using the incomes provided by the privatization for compensating the public debt;
- consolidating the capacity of financial management in the Finance Minister;
- improving the process of taxes collection.

Consolidation of the taxes system reformation

The reform of the taxes system will be strengthened based on the requirements of maximization of the base of taxing and rationalization of the taxing marginal rates. The main measures concerning the reform of the taxes system include:

- improvement of the global income;

- accepting business expenses for normal business costs;
- direct taxes, value added tax and excises will be aligned to the exiceses of the integration in the Unique Market.

The increase of operational and allocative efficiency of budgetary expenses

From the fiscal-budgetary point of view, considering the Romanian necessities in the macro economical plan, the stimulative and orientation role of the imposts and taxes can not be ignored.

If we take into account that the main target of the decision taker at macro economical level - in this phase- is the economic growth and development, fiscal consolidation and a stronger middle class, it is necessary to increase the efficiency of budget allocations, based on priorities, public expenses transparency, assuring the multiplicative effect of public expenses on the real economy.

Our opinion is that the governmental fiscal policy must be mostly in the service of taxes producers than taxes collectors and must rely on a true partnership between the state and the tax payer.

Like we already know , the fiscality's efficiency is obvious in the manner in which the taxes and charges collected to the state budget are represented under the form of public services quality, as well as in the way they assure the preservation and extension of taxing bases. The reform of fiscal legislation imposes the continuous reducing of exemptions given to the payment of taxes and charges, in order to increase the business environment transparency, competitiveness improvement and extension of the taxing base. The main features of the fiscal-budgetary policy in the 2005-2008 period are subordinated to the objectives of supporting the economic growth and reducing the inflation and are referring to:

- establishing the general consolidated budget deficit to a level correlated with the macro economic objectives, as well as diminishing the semi fiscal deficits, so to sustain the efforts of reducing the inflation in concordance with the nominal convergence criteria;
- support for the convergence process of Romanian economy with European economies;
- the profound reform of fiscal administration so to improve the collection of budgetary obligations;
- acceleration of the fiscal decentralization process in order to have a more active involvement of the local communities in the process of collecting and allocating public resources;
- relaxation of the fiscality on work, income and capital;
- diminished contribution rates to social assurances so to eliminate the disadvantage of fiscal competitiveness, of reducing the underground economy;
- growth of the public expenses transparency;
- growth of the absorption capacity of adhesion funds and of structural funds from 2007;
- continuity in the harmonization of the fiscal-budgetary policy with the European Union normative.

The fiscal policy will be created and implemented on the basis of the following principles:

- the fiscal neutrality principle: the fiscal norm should not produce (by its introduction, modification or elimination) asymmetrical shocks at the level of economic

entities; the fiscal neutrality will be limited only in the conditions when, for the achievement of government program objectives, acceptance for short periods of time of some asymmetrical shocks is compelling (asymmetrical fiscal impulse);

- the fiscal efficacy (performance) principle: the fiscal norm must have an impact on the desired fiscal behavior (economic in general); a fiscal norm that do not produce a modification(induction, alteration, elimination) on fiscal behavior is inadmissible;
- equality of fiscal treatment principle: the economic entities having similar economic function during a time frame well established will be treated identically from the fiscal point of view, independently of other criteria of differencing them;
- the fiscal norm sustainability principle: the taxing process will be designed in such a manner to stimulate the taxed good by the mean of the tax itself, under the aspect of the specified taxed good extension, stability and transparency.

Budgetary policy will be designed and implemented on the basis of the following principles:

- the principle of cost minimization for the collection of budgetary incomes: improvement of the fiscal administration regarding the professionalism and logistics, therefore reducing the financial control expenses and the budgetary obligations collection, taking in consideration that those are the only expenses with no direct impact on the real economy;
- the principle of the public expenses implementation: public incomes must be collected on the basis of public programs generating priority degrees for the public expenses as well as quantum in their allocations;
- the public expense performance principle: the public expense must be allocated in such a way to generate a over unit impact on the PIB in report with every spent currency unit, thus to have a multiplicative effect on the real economy;
- the public money assignment principle: any expense must offer transparent information on which the route of using the public money, the responsibility links in this spending, as well as the possibilities of recovery in case of fraud or neglect can be identified;
- the equality principle of public funds treatment: the internal and European public funds will be under the same institutional efficacy, saving and efficiency exigencies as well as procedures of their safety assurance and recovery in case of fraud or neglect.
- the multi annual budget: considering the manner in which the general consolidated budget is elaborated and monitored, process (multi annual) budgets will be elaborated based on relevant socio-economic processes in the economy attempt to assure the real and nominal convergence with the European economies.

A. Fiscal Relaxation

The vault key of the fiscal policy is the fiscal relaxation as a method of eliminating the tension from the business environment, stimulating the private initiative and supporting the underground economy to become official. The fiscal relaxation will assure at the same time the sustainability of the economic growth by extending the taxing base consequent to the official economic activities extension (at the entrepreneurial level, but also the manpower level). the fiscal relaxation will offer to Romanian business environment flexibility, predictability and elasticity.

The important reason behind the fiscal relaxation is that a hard fiscality rise a number of threats on the real economy:

- the internal offer evolution and transformation becomes rigid;
- it hides a part of the economic activity from the national accounting system.

In the taxes domain are taking in consideration the following:

- Direct taxes

There will be only a tax rate on the income tax as well as on profit tax. The tax rate will be competitive in report with the ones in the states with which Romania is in competition in order to attract direct foreign investments.

- Social contributions

The contributions to the social public funds(pension, health, unemployment) have diminished step by step, starting from 2005, in 2008 being set at 39,5 % from 49,5 % in 2004. The reduction of the contributions will be relatively higher regarding the employer than the one concerning the employee.

- Indirect taxes

They will represent the main source of income at the state budget. For a certain period the regulations about TVA will be maintained. The positive effects of the fiscal relaxation on income and profit will allow in time the TVA alignment to the 16% level recommended by the community acquis.

- Taxes on fortune and luxury products

The products considered to be luxury goods and can damage the health and the environment will have excises growths. There will be also measures imposed for the taxing of real estate properties at the market value.

- Implementation of a direct financing system of the non governmental organizations

In order to enhance the functional capacity of the non governmental organizations, it is necessary to support a direct financing system of those, focused on the performance criterion. In this sense, by the modifications brought to the Fiscal Code the share that persons can give to registered non governmental organizations will be raised from 1% to 2%. In regard to the commercial societies financing the non governmental organizations, it is necessary to change the legal frame regarding sponsoring, targeting a real interest of the payers in supporting the activity of non governmental organizations.

B. The Growth of the fiscal administration capacity

Fiscal relaxation will be accompanied by a strategy focused on the growth of fiscal administration capacity through:

- separation of the fiscal administration from the fiscal policy;
- elimination of the debts' exemption or sampling practices to the public budgets;
- consideration of the fiscal evasion as economic-financial crime and its punishment accordingly;
- modification practices elimination of the fiscal regulations by low rank legal acts;
- the increase in the institutions' administrative capacity of collecting taxes;
- evaluation of the fiscal control procedures and setting strict ethical rules in the fiscal control activity, by the cooperation of the public authorities with the business environment.

C. Customs System

The measures promoted about the customs policy initiate from the basic functions the customs institution covers in the context of Romania's integration in the European Union.

While the customs fiscal function is transforming, the functions of facilitating commerce and protecting citizens within the community space will become more and more important since we are positioned at the external boundary of the European Union.

The present dysfunctions, affecting the state budget and business environment, will be eliminated by accelerating the measures of institutional and legislative-procedural reformation:

- the customs authority integration in the central fiscal administration, like an executive structure of the Public Finances Minister;
- attributing new competences to the customs authority regarding the administration and other taxes category , excises and TVA mainly, which will lead to an increase in the degree of taxes collection, by the disappearance of administrative links and simplification of the finding, calculating, charging and monitoring procedures regarding budgetary debts;
- a new legislation concerning the Romanian customs regulations harmonized with the community acquis,
- generalization of the simple customs procedures, applicable to economic agents with significant activities, assets, investments and personnel, the dispensable employees being used for activities of fraud detection and illicit traffic etc.,
- offering immediately to the economic agents in writing or on line the Romanian Integrated Customs Tariff, instrument necessary in avoiding the arbitrary application of law by the customs personnel and reducing the corruption;
- corruption elimination from the customs system by reorganizing the activity of local customs units, rethinking the entire competences' system of those, inclusively the liberation of various authorizations in excess, and creating a transparent system of material stimulation of the customs personnel, combined with intensive professional training;
- reconsidering the competences of all state authorities with activities in the customs points; adopting for this reason the models of the customs from other member states, establishing strict attributions regarding subordination, cooperation and collaboration;
- creation of a national school of customs authority, for selecting and training in a proper manner the customs personnel, as well as a professional customs corpus;
- elaborating the regulations concerning the customs operations in the contraband goods traffic, in conformity with community norms and respecting the rights of intellectual property in commerce activity;
- improvement of the customs infrastructure by optimizing the communications and assuring the data protection of the community informatics system of monitoring transit;
- continuity in the investments for securing of the north and east boundaries, finalizing the works in already in built customs offices, modernization of the existent ones and bringing equipments of detection and control;
- intensification of the customs authorities cooperation with other institutions in collecting data, data exchanging and processing in order to detect and fight the illicit traffic of persons and goods.

D. Financial-Fiscal Control

From the point of view of financial and fiscal control are targeted the next basic directions:

A. From the financial control point of view, there will be preoccupation about:

- decentralization of financial control, both internal control and internal public control, in conformity with the Union regulations. There also be taken institutional measures according to which the financial control structures organized at the central institutions level will have only monitoring, coordination and methodological functions, so the executive functions to be fulfilled at decentralized level;
- complete legislation about the internal control (the less institutionalized type of financial control in Romania) in concordance with the Union regulations;
- the preventive delegated financial control will pass by the middle of 2008, from the Public Finances Minister to the level of each public institution and authority;
- institutional development of the financial control to include the control of public incomes, not only public expenses;
- adoption of the Internal Control Code, with the assembly of regulations concerning internal control at the level of public institutions and authorities;
- adoption of the Public Money Responsibility Law , including the necessary norms of any kind (legislative, methodological, organizational) to assure the efficient and safe utilization of the public money(also aspects concerning recovery of sums lost consequent to illegalities or frauds).

B. From the fiscal control point of view, there will be preoccupation about:

- elimination of executive attributions of the fiscal control structures at the central level of public institutions in our country;
- concentration of all types of fiscal control within the National Agency of Fiscal Administration in order to achieve the direct link between the fiscal control and budgetary obligations collection.

E. The Conformity of the Fiscal-Budgetary Policy with the Monetary Policy

In the following period the executive authority will activate to assure the conformity and convergence of the fiscal-budgetary policy's objectives and options with the ones of monetary policy designed and implemented by the RNB. The fiscal-budgetary policy will support in this direction:

- achievement of the directly targeting inflation objective through measures limiting the pressures on the monetary mass;
- the balanced administration of unemployment, inclusively by unemployment indemnity, assuring the projected life standards without generating artificial growth of aggregated request;
- orientation of the budgetary expenses towards directions and objectives with multiplicative effect on the aggregated request.

Designing and implementing of public policies for internal liability in order to avoid banks decapitation and the growth of bank's interest rates, both with a negative consequence on the investments and inflation.

For achieving this goal, the executive factor must impose the development and maintaining of permanent and systematic consultations with the Romanian National Bank to harmonize the two great policies of macro economical adjustments: the fiscal-budgetary policy and the monetary policy. It is necessary the design of an efficient mixture of financial-monetary policies for this.

Conclusions

The Maturity Process of the Economic and Monetary Unions, the continuity of the real convergence process will lead us in the future to what the specialized literature

defines as fiscal federalism, meaning „the manner of competences distribution in the fiscal domain between the different levels of administration (national, regional municipality) (Weidinger Sosdean Corina, 2005), though the European Union has not reached the federative stage in which the economic competences are shared by the Community in the member states, and the Community's budget is used for the achievement of the central objectives.

The recent high meeting Lisbon may represent the positive signal of the continuation of the European integration seriously damaged by the referendum's results from France and Denmark, that rejected the European Constitution, and in regard of the budgetary federalism, the possibility that in the future European Union to become a federative state with absolute competence in any domain of activity in the implementation of the fiscal federalism depends mostly in the achievement of political union of all member states. We all witness this days the influence on everyday life of a long term process named globalization. It “generates social and economic changes, affecting by interconnections created between the countries, institutions, people etc, the worldwide social order and bringing profound changes in the most various domains.” The economic growth is necessary for an economy left behind like in Romania's case, recently admitted in the European Union select clubs. Real convergence signifies for us a lasting growth first, continued by the modernization of economic and social structures aiming to reduce the delays that still separate us from the developed west part of Europe. The question of the fiscal policy can support the process of economic-social development in Romania is a very important one and many answers are expected to it, related to the Government's capacity to find the most adequate answers, but also to the maturity of the civil society and the possibilities of the Romanian society. A reduction in the fiscality, started in 2005 by the introduction of the unique taxing rate of 16%, may represent a positive answer, meaning that a large volume of available incomes remain at the disposition of the companies and physical persons and they can produce an increase in consuming (considered the base for the growth of the aggregated offer and thus for economic growth too), saving or investments. It was observed that a growth of the available incomes was directly to the acquisition of imported goods, so the impulse for economic growth was drawn in a secondary plan, being more visible the influence on the deficit of current account. It is also true that an entire set of budgetary expenses can directly contribute to economic growth throw the expenses with education and scientific research, health, capital, transfers, defense system. The two tendencies (of reducing the taxing degree and increase of the budgetary expanses) are of contrary nature and when we want to put both of them in practice, the danger of budgetary deficits becoming permanent is around the corner and their covering brings about serious problems for the contemporary economies.

It is true that the Romania's foreign debt is low in comparison with European Union member states, but we appreciate that a growth of this debt, though contributing decisively to the economic growth would mean to compel the future generations to big efforts for repayment or reduction of the public debt, or it is known that “lasting development is the one meeting the present's needs without compromising the future generations ability to fulfill their own needs (Talpos I, Falnita E., 2006). On the other hand, Romania's integration in the European Union brings along the obligation to respect the assumed engagement and align the economic, monetary and fiscal policies to the ones applicable in the European Union and the other member states , where the fiscal competition is targeting to attracting the investors by a lower level tax system and

maintaining the population active by the mean of adequate social and development policies.

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