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Considerations on the Structure and Particularities of Tax Revenues in the 2000s Romania

L.C.Risti, L.Csorba, L.Cuc

Lucia Camelia Risti, Luiela Csorba, Lavinia Cuc
Faculty of Economics
"Aurel Vlaicu" University of Arad, Romania

Abstract
The fiscal policy has the purpose to delimit broadly the volume and the structure of optimum tax revenues, in order to maintain a financial equilibrium. Likewise, the fiscal policy should fit within the national economic and macro-financial objectives. From this perspective, fiscality inhibits certain activities through the increase of tax burden, while stimulating others through tax incentives. Likewise, the type and number of channels that contribute to the consolidated budget are highly relevant for the definition of the state fiscal policy.
Keywords: tax revenues, fiscal policy, public resources

Introduction

The Romanian fiscal policy over the last decade (the analysis period proposed in the present paper) is characterised by the completion of two main stages: the first stage (between 2000 and 2007), characterised by a stabilization tendency of the main economic and financial macro-indicators, and a second stage (between 2008 and 2010), characterised by an economic and financial crisis. The international economic and financial crisis affected Romania as well, causing its economic recession. Likewise, the fact that Romania became a member state of the EU in 2007, influenced the Romanian fiscal policies before and after this date. All these aspects will be approached in the present study.

Material and Methods

The present paper uses the information regarding the 2000-2010 Romanian fiscal aggregates, whose analysis will be carried out by means of empirical studies, which are based on the statistical processing carried out by INSSE, The Ministry of Public Finances and the NBR reports.

We initiate our research by presenting a landmark concerning the evolution in nominal figures of the Romanian fiscality during the analysed period. This landmark can be viewed and studied in the following table:

Table no. 1. The dynamics of the level and structure of public revenues in Romania, 2000-2010

Specification/ Year (% in GDP)	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Total revenue	**31,3**	**30,3**	**37,6**	**32,2**	**32,4**	**32,3**	**33,1**	**34,7**	**32,0**	**32,0**	**33,0**
Current income	31,2	30,3	37,4	32,0	32,0	32,1	32,9	34,6	31,0	30,9	33,0
Direct taxes	6,9	6,2	5,7	5,7	6,4	5,3	6,1	6,9	7,3	7,0	6,4
Indirect taxes	11,6	11,2	11,7	12,5	11,8	12,9	12,7	13,0	11,0	10,7	11,7
Social contributions	10,8	10,8	11,3	9,8	9,7	10,3	10,3	10,8	9,4	9,7	8,9
Other current revenue	1,9	2,1	8,8	4,0	4,1	3,5	3,8	3,9	3,1	3,4	5,9
Capital revenue	0,1	0,0	0,1	0,1	0,4	0,3	0,1	0,1	6,2	0,1	0,1
% Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Current revenue	99,7	100	99,7	99,7	98,7	99,2	99,6	99,6	96,9	96,6	100
Direct taxes	22,0	20,5	15,8	17,7	19,7	16,5	18,4	19,8	22,8	21,8	19,5
Indirect taxes	37,1	37,0	31,1	38,9	36,4	40,0	38,5	34,5	34,4	33,4	35,5
Social contributions	34,5	35,6	30,0	30,6	29,9	31,8	31,2	31,6	29,4	30,3	27,1
Other current revenue	6,1	6,9	23,5	12,4	12,8	10,9	11,5	11,2	9,7	10,6	17,5
Capital revenue	0,3	0,0	0,3	0,3	1,3	0,8	0,4	0,4	0,6	0,5	0,4

Source: www.mfinante.ro.

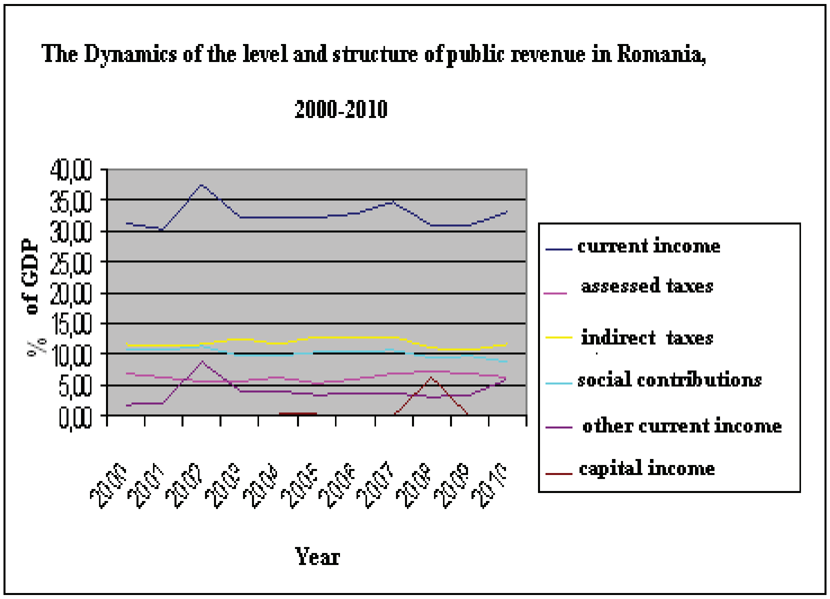

Figure nr. 1. The dynamics of the level and structure of public revenue in Romania, 2000-2010

Regarding the evolution of the budgetary aggregates per capita, it can be stated that these offer an image concerning the tax burden on citizens, thus providing a landmark necessary in the comparison of tax and budgetary burden during various periods of time or between citizens belonging to different states.

In Romania, the evolution of the budgetary aggregates per capita, during the analysed period, can be viewed and studied in the table below:

Table no. 2. The dynamics and evolution of the share of the per capita budgetary components in Romania between 2000 and 2010

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Specification/ Year	BGC income/ per capita	income in direct tax/per capita	indirect tax revenue/per capita	expenditure BGC/per capita	gross budget deficit/per capita
1	2	3	4	5	6=5-2
2000	1.194	264	444	1.355	161
2001	1.685	345	623	1.879	194
2002	2.698	411	844	2.856	158
2003	2.901	517	1.133	3.046	145
2004	3.639	728	1.342	3.821	182

2005	4.390	725	1.764	4.581	191
2006	5.144	954	1.986	5.520	376
2007	7.209	1.438	2.709	7.772	563
2008	8.048	1.895	2.856	9.917	1.869
2009	7.211	1.633	2.497	9.568	2.357
2010	7.945	1.541	2.817	9.510	1.565

Source: Annual Reports of BCR, 2000-2010; www.mfinante.ro-arhivă, general consolidated budged 2006-2010

The dynamic of public revenues resulted from direct and indirect taxes and public social insurances, at an EU level, registered the following evolution:

Table no. 3. Dynamics of EU27 government revenue from direct taxes (% of GDP)

Specification	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
EU maximum	30,3	29,3	29,1	29,3	30,2	31,7	30,2	29,4	29,7	30,1	x
EU average	12,5	12,2	11,9	11,8	11,7	11,9	12,1	12,5	13,1	11,9	x
EU minimum	7,2	6,6	6,3	6,5	5,8	5,5	5,5	6,1	6,4	6,0	x

Source: Eurostat, http://epp.eurostat.ec.europa.eu

Table no. 4. Dynamics of EU27 public revenues resulted from indirect taxes (% in GDP)

Specification	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
EU Maximum	17,0	17,2	17,4	17,2	17,5	18,7	19,4	18,5	18,2	18,9	X
EU average	13,4	13,2	13,3	13,4	13,5	13,8	13,8	13,7	13,5	13,7	X
EU minimum	11,3	11,0	10,8	11,1	11,1	11,0	10,9	10,9	9,9	8,7	x

Source: Eurostat, http://epp.eurostat.ec.europa.eu

Table no. 5. Dynamics of EU27 public revenues, public social contributions (% of GDP)

Specification	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
EU Maximum	18,3	18,2	18,2	18,3	18,0	18,1	18,2	18,0	17,2	18,3	22,7
EU average	12,2	12,2	12,1	12,2	12,1	12,0	11,9	11,9	12,3	12,1	13,4
EU minimum	2,6	2,6	2,1	2,1	2,1	2,0	1,9	1,9	1,2	2,0	3,6

Source: Eurostat, http://epp.eurostat.ec.europa.eu

Literature review

The *theoretical aspect* of the study is highlighted by numerous works belonging to Romanian and foreign authors out of which we mention selectively a few names such as: I. Văcărel, T. Moşteanu, I. Stancu, I. Talpoş, D. Dascălu, T. Stolojan, M. Duverger, P. Samuelson, M. Friedman, R. P. Musgrave and last but not least J. M. Keynes, the first to advocate the model of public funding through budgetary deficit.

The *procedural aspect* of the paper is highlighted by the national and community legislation, out of which we mention the following: The Law of Fiscal-Budgetary Responsibility, no. 69/2010, Government Emergency Ordinance no. 64/2007 regarding public debt, The Stability and Growth Pact, as well as the considerable volume of statistical information on the budget executions, respectively the ones on the evolution of budgetary deficit in Romania and in the EU member states, as well as those on the structure and dynamics of the Romanian sovereign debt stock, during the analysed period.

The information database was provided by the monthly, quarterly and annual reports of the National Bank of Romania, the reports of the Ministry of Public Finances, the Eurostat data bank, the data basis of the International Monetary Fund, of the European Commission and of the Organization for Economic Co-operation and Development.

Results and Discussion

Regarding the volume of public resources, it has been observed that not all channels of budget formation, which form the consolidated budget, function with the same efficiency. This situation leads to disequilibria which will be financed through the resources of another budget and ultimately through public loans. In this respect, one cannot overlook the importance and relevance of transfers between the state budget and local budgets through sums and VAT share splits and income taxes or the covering of temporary cash gaps of local budget from the resources of the general current account of the State Treasury.

Likewise, during the analysed period (2000-2010), it was noticed a lack of resources in the budget of social insurances. This was the effect of electoral delays of the reformation of the social public insurance system. A study[1] in this area carried out in 13 EU member states revealed fiscal stationary and long structural pauses in time, which denote the authorities' caution before taking decisions that are not usually very popular.

However, in a state in which the ensuring of public salary and pension funds represents a problem, the reduction of expenditures is no longer a suitable solution. Thus, the public credit is used in order to maintain the financial equilibrium. However, it is preferable to use the credit extant on the internal market and not the one extant on the external market, with the condition that the former is not too expensive or a generator of economic eviction. Excessive dependency on external resources leads to the increase in vulnerability of the national economy and of its macro-economic equilibrium in case of fluctuations on international markets or as it is nowadays in case of the worldwide economic crisis. This aspect was highlighted through a study[2] that points out the relationship between the primary surplus and the level of the public debt, as an indicator of fiscal sustainability. For both - industrial countries and emerging economies - there are proofs of a long term relationship between the primary surplus and debts, as long as we take into consideration a common stochastic tendency.

Moreover, it has been observed the existence of a stochastic trend for liquidities at a national level. While the fiscal sustainability of emerging[3] market economies is widely dependent on the worldwide liquidity, the industrial countries seem to be less affected by this common stochastic tendency. As a result, the fiscal policy on the emerging markets seems to be led by the pursuit of the unique purpose of fiscal viability, while the industrial countries combine a preoccupation for public debt sustainability with a consolidated welfare of the business cycle. Unlike emerging market economies, the industrial countries are capable of running deficits when they are confronted with periods of economic regression or in order to compensate the temporary increase of governmental expenses.

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[1] Holmes, M.J., Otero, J., Panagiotidis, Th. Are EU budget deficits stationary?, Empirical Economics, Volume 38, Number 3, 2010, pg. 767-778

[2] Byrne, J.P., Fiess, N., MacDonald, R. The global dimension to fiscal sustainability, Journal of Macroeconomics, Volume 33, Issue 2, June 2011, pg. 137-150

[3] Miyazaki, T. The effects of fiscal policy in the 1990s in Japan: A VAR analysis with event studies, Japan and the World Economy, Volume 22, Issue 2, March 2010, pg. 80-87

The above mentioned affirmation is consistent with the difficulties encountered by emerging market economies when issuing government securities.

During the analysed period, the management of fiscal policies despite the political background was characterised by the perpetuation of the structural budgetary deficits combined with a restricted space for manoeuvring regarding the fiscal corrections due to the high level of twin deficits; for example, in 2008, the nominal budgetary deficit represented 5.4% of GDP, while the current account deficit represented 13% of the GDP, both being considered excessive.

Likewise, maintenance of fiscality at the same level in 2007 and 2008, which were years of economic growth characterised by an economic overheating, is another mistake of the Romanian authorities according to the theoretical predictions.

The studies[4] carried on after 2007 - the beginning of the financial and economic crisis - highlighted a reduction in the governmental reaction revenues, reported to the economic cycle for the majority of countries, compared to the capacity to react of the governmental expenses. Thus, these results notify a deterioration of the capacity of fiscal authorities to use the automatic stabilizers to counteract the negative effects of the economic crisis.

Conclusion

Drawing a conclusion on the aspects observed previously but also considering the huge fiscal stimulus packages used on the background of the financial crisis, the budget consolidation is going to be one of the most important tasks of the governments around the Globe. Recent studies[5] bring forward the fact that corrupt countries register less success in the consolidation of their budgets during times of serious crisis. Researchers managed to identify two negative effects: a direct and indirect one deriving from the choice of the wrong fiscal policy tools. From a political and economic point of view, this might be explained through the fact that corrupt governments have higher

[4] Afonso, A., Agnello, L., Furceri, D., Sousa, R.M. Assessing long-term fiscal developments: A new approach, Journal of International Money and Finance, Volume 30, Issue 1, February 2011, pg. 130-146

[5] Arin, K.P., Chmelarova, V., Feess, E., Wohlschlegel, A. Why are corrupt countries less successful in consolidating their budgets?, Journal of Public Economics, In Press, Corrected Proof, Available online 31 January 2011;

stimulant's that allow them to maintain their huge expenses even during consolidation periods, so as to take into consideration the lobby interests- the so-called parasitism among lobby groups[6].

The fiscal behaviour of corrupt countries during harsh periods has to be monitored carefully by international organizations such as The European Union and the International Monetary Fund. As corrupt countries, they cannot consolidate in a durable way their budget, even during harsh periods, because they chose the wrong tool which induces the idea of the projection of certain control mechanisms which refer not only to short term deficit, but are also guided directly towards the reduction of expenses. This might also be an intelligent device to alleviate the disproportions caused by the corrupt governments, towards high expenses without interfering in a justifiable manner with the real needs of the public services.

Regarding the impact of decentralization and regionalization on the tax component and finally over the budgetary balance, there were identified and brought forward through B. Neyapti's[7] study, a series of proofs that point out a serious negative effect of fiscal decentralisation. Neyapti's findings recommend caution regarding a fiscal decentralisation since the country characteristics and the institutional characteristics influence greatly the efficiency of fiscal decentralisation in deficit reductions. The study shows that the efficiency of fiscal decentralisation in the deficit reduction is increased by population growth, even though deficits are usually associated in a positive manner with the population growth. The results also warn on the fact that decentralisation affects public expenses, which are more efficient in case of low levels of ethno-linguistic and government division, while these characteristics do not seem to influence the effectiveness of decentralisation over revenues.

However, in our country, over the past two decades, the general equilibrium of the society, of the economic and social system has been distorted if we take into consideration the contradiction between the two systems. On one hand, the social system inclines towards a Ludwig Erhart type of social model, characterised by increased social protection

[6] Dharmapala. D. The Congressional budget process, aggregate spending, and statutory budget rules, Journal of Public Economics, Volume 90, Issues 1-2, January 2006, pg. 119-141

[7] Neyapti, B. Fiscal decentralization and deficits: International evidence, European Journal of Political Economy, Volume 26, Issue 2, June 2010, pg. 155-166

measures which imply the levy of an important quota (40% of the gross domestic product); a model applied in the North European States and having Germany as its main pioneer. On the other hand, the Romanian fiscal model of the past two decades has rather been a minimalist one, according to the analysed figures and if we take into consideration the fact that tax levies represent approximately 31% of the gross domestic product. Likewise, it is questionable how much of the Romanian social model has an explanation in the need of collecting votes and if the actions anticipated through the public budget represent a true reflection of the necessities that are needed for the present development of our country; respectively if it can be justified from the point of view of the rigors of the efficiency criteria regarding the spending of the public money.

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