

Macroeconomic Policy Towards Raising Economy

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Abstract. In our country, the post-industrial society is build in the context of the European integration of our national structures, a process that was assumed to create a larger convergence with the continental economic pole, and to consolidate the cultural and economic development of the citizens. Inside such overview, the crisis that brought a negative growth in our country and unbalanced the national markets of goods and labor was administrated in a simple manner by the authorities, who realized that it was much easier to raise expenses than to collect incomes in an unfortunate conjuncture. The comparative analysis of the strategic goals of the United Europe with the currently developed possibilities of the states to lever the financial and economic evolution, reveal the possibilities of the authorities' intervention to gain a favorable feed-back from the depressed economic environment. In Romania, depression started in 2008, and continued per 2009 and 2010, unemployment rose, and the foreign debt rose during the last three years. The short term tools used by the leadership and the current authorities were focused on the use of fiscal instruments, and theoretically on the "Supply Side" reviewed point. In this paper we express our point of view regarding the solution of re-launching the economy by fiscal policy. Also, we propose other solutions in the service of the society.

Keywords: integration, crisis, intervention, fiscal policy, re-launching economy

INTRODUCTION

In order to provide an objective analysis of the global frame of undergoing economic phenomena, one should consider the context of the global financial and economic crisis, started in the first decade of the new millennium. This disputable fluctuation of the yearly macroeconomic results, index measured, although affected all the countries, owes particularities from one national economy to another which make difficult the verdict of an easy crises for underdeveloped countries, or heavy crises for developed areas; also, although it is a wide spread knowledge that the shortest recovery is possible in the most industrialized and tech areas, the structure of industries and the geographic situation design specific patterns for boosting the local economy.

On the stirring background of the global financial and economic crisis, Romania faced a serious growth decline, which was even more shocking for the population because it came after eight years of continuous raising economic growth: real GDP grew positive until 2008 (7.9% in 2006, 6.3% in 2007, 7.3% in 2008), but negative in 2009, of -7.1%, and in 2010, of -1.3% (BNR, Monthly Bulletin, 2011-May).

The fluctuations of the economic cycles and the economic decline started in 2008, when the negative growth index showed decline, but in real economy the time leg of spreading effects of the phenomenon push the difficulties of adapting to a shrinking conjuncture in future, for several years. This has put our country in the difficult position of the impossibility of self financing and consequently of asking for foreign financial assistance, at IMF and European Bank.

Hoping in a temporary negative economic growth, the government and the business shrank activities with the cost of an increasing unemployment, meanwhile increasing the productivity by an abrupt, quantitative method, of over-use the remained labor: the industrial productivity, for instance, rose in 2008 with 6.8%, in 2009 with 12.5%, and in 2010 with 17% (BNR, Monthly Bulletin, 2011-May).

MATERIALS AND METHODS

The premises of a reliable theoretical debate on the political macroeconomic issue of boosting economy, as a response of the dramatic crisis we face, is an accurate statistical evidence of the main phenomena, such as inflation, prices fluctuation, employment and unemployment and deficits, allowing us to figure the dominating trend and characteristics of the growth and development.

The Maastricht Treaty, as a frame for the designed stability of the European single market, has been adjusted ever since 1991, the add on-s having an immediate impact upon the priorities which should be financed in the short run.

This is why, a comparative analysis of the strategic goals of the United Europe with the currently developed possibilities of the states, to lever the financial and economic evolution, reveal the possibilities of the authorities' intervention to gain a favorable feed-back from the depressed economic environment, or from a modest change for the better.

Although the causality of deterministic phenomena in economics hasn't been solved in a satisfactory theoretical way, we dare to advance some logical follow up of the current situation, as it is instrumented by the politicians.

For our government, the short run possibilities of ruling the macroeconomic equilibrium have placed in front the fiscal tool, which feeds the budget, and the necessity of cutting expenses, which is always a hard and unpopular way to go.

RESULTS AND DISCUSSION

The necessity of fueling the treasury by fiscal tools is not new in the economic thinking: it was largely explained by the classics such as Adam Smith (Adam Smith, 1776), in his "An Inquiry into the Nature and Causes of the Wealth of Nations", who made a still valid argumentation upon the necessity of taxation and its particularities, in powerful nations or smaller ones.

Because everybody is protected by the state, we all ought to pay taxes, proportionally to the incomes we gain, so that the budget should be ready to make expenses when necessary.

Moreover, he considered that taxation proportionally to incomes (poll tax) is mandatory for setting up a powerful nation, while if the decedents target to remain poor, the taxes could stay low, or flat.

Emphasizing this rich state policy, and meaning the prosperity for his country, David Ricardo (Ricardo, 1817) gave a detailed explanation in his "On the Principles of Political Economy and Taxation", about the economic and psychological impact of the tax-share, insisting that it should be according to the wealth of the contributor; this principle should be applied because one percent of the income weights less for a rich person, earning much, although it values more, comparing with one percent of a smaller income, which has less value, but it means more for the poorer contributor, who was unable to earn so much.

The classic point of view regarding the taxation system was retaken by many doctrines and economic policies, may they belong to various political spectrums, (from left to right), in order to ground and justify the ruling measures taken by the governors.

Still, we are attentive to the classic view, because there are some hypotheses, or features, which seem to be in common in the real economy of those epochs and today, which act like principles of economics over the time.

The first characteristic is the aiming of developing the industries, as a hopeful sector of the future, steady development: not only Romania, but all the contemporary countries have been made efforts to develop the industrial production, (Sarbovan, 2009, 2010) for centuries now, although the industry does no longer count as the larger part of the whole economy, but it remained the engine of the economic structure.

The second characteristic is the preoccupation of the macroeconomic managers to balance the budget, so that the higher and higher expenses were covered by the state incomes.

The third, but not last, is related to the social peace concept: the contributors should be and remain prosper, so that they not only were able to contribute to the social welfare, but to the economic capitalist welfare too.

The concretization of this concept is a larger middle class, rich enough to financially support the national interests, and to constitute a larger aggregate demand on the domestic market.

In our country, the knowledge of classic principles should be a common achievement, since the efforts for education were very high after the Second World War, but the way they apply is the object of endless polemics among social groups.

On the other hand, the theory of public choice, (e.g. Buchanan, 2000) argues that the macroeconomic decision makers do not balance in a lasting optimum the interests of the state and society, with the individual ones, in a way that such equilibrium assures the personal freedom and the private happiness. Critics of the state budget administration (e.g. Buchanan, 1986) show that state is not wiser than its members, as individuals, and the distribution of the government spending, especially in developing countries is controlled by the executive; the executive behavior can generate financial dependence and corruption, as the financed entities influence the budget planning to get all kind of privileges.

Romania is connected to the European Strategy of Development and in this line there have been made more systemic efforts to coordinate the national economic activities and structures with the EU levels.

Many measures concerning the macroeconomic administration are taken under the restrictions of the community larger interest, and because of this, the effort of the authorities to adapt the general tools to the local conditions do not succeed every time.

Fiscal instruments constitute an efficient tool to administrate the macro-economy with a quick answer and also, they are an excellent example of how a principle or a measured good for one country can give in another a paradoxical, opposite response.

During the last decade of the XX-th century and the following years, the “classic modernization” of the fiscal system was proposed for the eastern countries, and nobody claims for the time being the paternity of this plan: Estonia and Lithuania in 1994, Latvia in 1995, Russia, in 2001, Serbia and Ukraine, in 2003, Slovakia, in 2004, Georgia and Romania, in 2005, Albania, Macedonia and Montenegro in 2007, Bulgaria and Czech Republic, in 2008, Hungary in 2011, have implemented the flat tax for personal and corporate taxation, in various shares, from 9% (for personal and corporate tax) in Montenegro up to 26% for personal tax in Latvia. In some countries, it is true, the difference between personal and

corporate taxation is significant: Russia has ruled 13% for personal taxation and 24% for corporate taxation (List of Flat tax countries, 2010).

This measure was seen as a benefic fiscal simplification of the pre-existing poll taxation, bringing a sum of positive results which should have end in higher macroeconomic results, higher incomes for the state and consequently the possibility to increase aggregate expenses.

In a doctrinaire approach, the implementation of the flat tax system was perceived by the media and public as a “supply side” tool put to work, in order to serve, in the next future step, after reaching the budgetary balance, a possible neo-Keynesian policy.

This is because the “supply side” policy aims to abundantly fuel the national budget, to expand the revenues, and by doing that, to fight recession and balance the national budget by increasing the incomes, in contrast with the Keynesian view which recommended rising the budgetary spending as an interventionist anti-cycle policy.

On the other hand, the Keynesian measures cannot be applied from the beginning, because of the notorious deficits policy promoted by all states, and somehow tacit approved by Maastricht Treaty (which allows a deficit, subjected to fluctuation under the aggregate evolution of the states’ impact).

Nevertheless, the classics draw attention that in small countries the flat tax counts almost the same for prosper and poor people because the reduced dimension of the incomes liable to duty; when the incomes are higher, the duty for the state becomes larger too, in a moral and logical way, because the safety requested by those prosperous business is at a proportionally higher level.

This fiscal tool was expected to counterbalance the tax dodging and enlarge the collecting basis of the budgetary resources, but in our country, what happened was somehow the opposite of these expectations: in 2008, the global financial and economic crisis hit our country, and thousands of firms entered in the insolvency procedure; the budgetary policy tried to cut expenses, in order to balance the lower real incomes, at the price of a raising unemployment, up to more than 7% in 2010; in this context, the inflation index could not meet the targeted 3.5% for 2010, going up to 7.96% (National Bank of Romania sources).

What we can say after the experience of the last years is that a “supply side” principle which seemed to be good, had paradoxical effects by applying, especially since 2008, and this situation became a challenge for specialists.

Moreover, after some macroeconomic index calculation, like the decline of the purchasing power in 2009-2011, the negative effects of the global recession are not finished; they might be going on for some time.

Far from us to consider the fiscal tools as the origin of the crisis, on the contrary, we mean to underline the importance of a wise governance during critical epochs, such as crisis ones.

To have a larger picture of the last decade of sinuous evolution of the Romanian economy, we emphasize the enthusiasm of the business environment when entering the UE, in 2007, and our country was recording the seventh year of continuously growing trend; at that moment, “The Romanian National Development Plan, 2007-2013” was launched, as a component part of The Romanian National Strategy of Economic sustainable development aiming to promote the appropriate measures for the convergence of our country with the average level of development of the UE, in all sectors, in the shortest time frame.

Specialists simulated at that time the duration and the quantitative parameters of the convergence process in different branches, but meanwhile, both factors of the comparison, the

local and the European average changed in unexpected manner, because the European single market and the European economy dropped as well during the global crisis.

Also, Euro-money encountered structural unbalances and difficulties which could not have been guessed, under the pressure of national difficulties of some EU member states and thus, the sustainability concept showed its importance once again: it looks like the crisis cuts off the unsustainable activities, no matter their previous efficiency.

In the new conjuncture, it takes to adapt the optimization of the integration of our country from economic, social, technological and environmental points of view in the European Space.

“The National Development Plan” was created as a part of the European Cohesion Policy, meant to display a coherent view regarding the development of the member states, organized in development priorities, programs, projects, according to the principle of planning the structural funds.

During the present post-accession period “The National Development Plan” is functioning in its basic role of aligning the national policy to the common development priorities of the European Union. It is mainly promoting those measures considered to entail the long lasting development on the whole European Union area.

It is the allocation instrument of public investments to development, mainly oriented towards the priorities and objectives compatible with the intervention domains of the Structural and Cohesion Funds, and the national leadership seems to be aware of the sustainable impact of the investments on the Romanian territory.

The good principles of the development plan will be instrumented also by using other supporting taxation meant to increase governmental revenues: the excises and VAT.

The excises and VAT expansion put an unnecessary pressure on the costs, and consequently on the salaries (because the entrepreneurship intentions to cut costs had to be materialized inside their anticipations regarding the cost/price ratio); this raised consumption goods prices, decreased the demand and as a result, a higher taxation was applied on less transactions. Watching the VAT Rates Applied in the Member States of the European Union, 2011, we notice that our country applies one of the highest rates in EU: 24%, while Germany has 19%, and 7% for foodstuffs, France has 19.5% and 5.5% for foodstuffs, Spain has 18% and 4% for foodstuffs (“VAT Rates Applied in the Member States of the European Union”, 2011).

No doubt, the executive will modify and adapt the balance between flat tax and VAT contribution to fueling the budget revenues.

CONCLUSIONS

The practice of the developed countries showed that growth can occur having a budget deficit, see the list of government budget by countries (The World Fact-book, 2009).

This is a false “promise” of the statistics, and in our country, the executive goes on the line of adapting revenues and expenses in the direction of diminishing the deficit, in order to meet the Maastricht criteria for entering the Euro-zone.

But the 2008-2011 economic crises draw back Romania from the growing process we were engaged: the nominal GDP lists our country in 2010 in 73-rd place.

This decline was reflected into the GINI poverty index which was: 31% in 2002, 30.3% in 2006, almost the same as for the average UE which was 31% in 2006, and 50% in 2010. (List of countries by GINI index, [http:// www.infoplease.com/ipa/](http://www.infoplease.com/ipa/)); one can notice that the GINI poverty index for our country is in raising trend during this decade.

The good news is that the raising productivity reported in few sectors is in connection with the foreign trade deficit, which is diminishing: from -19109 million euro in 2008, to -6871 million euro in 2009, to -5905 million euro in 2010 and to -455 million euro in the first term of 2011 (BNR, Monthly Bulletin, 2011.May).

This tendency of expanding exports is able to create a solid financial source for the budgetary revenues, most valuable from the economic point of view. In this trend, Romanian agriculture has a precious contribution to the sustainable development of our country and of European economy, in general, by raising the bio-products exports (Sarbovan, 2010).

In 2009, the eco-agriculture sector hold 2% of the cultivated area (summing up 9 million ha), but it is estimated to reach 20% in 2015 (<http://www.bio-romania.org/cat>), being financed by subventions; also, the current situation of exporting more than 90% of the national “green” agricultural production owes a steady trend, due to the higher profits agro-food production brings on foreign markets (see for instance the reduced and even super-reduced VAT for food in EU countries).

In European Union, the sustainable development is a priority of action and policies are dealing with securing a healthy, long lasting growth in all sectors.

The Romanian authorities undertake and promotes democracy, market economy and the European strategies, for the purpose of Romania’s durable economic development, for increasing the citizens’welfare. A sustainable macroeconomic management in our country now has to deal with the latest data about the evolution of GDP: about a quarter of it is fueled by the industrial production, while 2/3 is fed by consumption.

Public development policy in Romania should target the achievement of some new objectives, in order to raise the efficiency level of all activities: information reform, which should ground production and services; stimulation of the transformation of the poor class into the middle class, following the social model applied by most developed western countries; efficient allocation of budgetary resources, measured by a positive impact in the GDP; supporting the capitalization of the industries; modernization of the logistic frame of public and private activities; institutional reform in all branches of activity, in the sense that the institutions’ functioning ought to serve the citizens, interests.

Also, in order to support the business, so that it will be able to larger contribute to the central revenues, measures should be continued for expanding activities on the foreign markets, which are not enough explored so far by the Romanian entrepreneurs.

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