Ionel MĂNDESCU
“Lucian Blaga” University, Sibiu

FISCALITY – RELEVANT FACTOR INFLUENCING THE BUSINESS ENVIRONMENT

Keywords
Fiscality
Fiscal policy
Economic growth
Profit
Business environment
Operator

JEL classification
O23, O11, F36

Abstract

Main tool for macroeconomic management - fiscal policy consists in establishing the levels of taxation and spending in order to influence macroeconomic performance. Fiscal policy, promoted by the government authorities of any contemporary state, is directed usually to achieving microeconomic and macroeconomic goals deriving from the roles the state must fulfill in the economy, respectively the allocative role, distributive, regulatory and the stabilizer role.
Governmental authorities, through the production and supply of public goods that are financed at the expense of taxes or duties, or on the public debt, affect both individuals' utility functions and production functions of economic agents in the private sector. At the macroeconomic level, fiscal policy decisions of governmental authorities relating to either public spending or taxation can be directed towards the stimulation of development. Fiscality is a business cost in investment, where the decisions are taken by representatives of the business environment

1. INTRODUCTION

Taxation should be studied from a static and dynamic perspective. Taxation is considered a generator and a fruit of fiscal policy, using this as an instrument of its political decisions. For economic, political and social aspects, this leads to the functioning of different sampling techniques and mechanisms of taxes. Fiscality analyzes the achievement of the economic and social policy objectives of the state.

2. TAXATION AND THE PRESENT ECONOMIC CRISIS

In the case of the economic crisis and the measures established by authorities as alternatives to increase revenue to the state budget, social security for labour cost increase would be a harmful extent. Based on the economic downturn and liquidity problems in the market, such an increase would lead to another increase in the cost of companies with employees, accelerating restructuring decisions or dismissal of staff.

At the macroeconomic level, the state budget would suffer due to the increased spending by employees made redundant or due to decreasing budget revenues. For this problem to be avoided is required a gradual decrease of social contributions, which leads to attracting and keeping employment, especially the qualified one, through the European integration and the free movement of labour at European level. Taxation is the expression of the political will of an organized human community, set in a particular territory and having sufficient autonomy to be able, by the bodies they represent, to acquire a full range of legal rules and in particular fiscal.

The current financial and economic crisis has a powerful effect on public finances in the sense that reducing economic activity led to decreased revenues, increased deficits and increasing public debt. In addition, the support for troubled banks in major industrialized countries resulted in pumping liquidity into the system, but also in taking up uncertain assets that ultimately will affect all government's debt.

Compared already with the great crisis of 1929-1933, the present national and international financial crisis has led authorities to rethink the anti-crisis fiscal policy mix. If a few years ago both the International Monetary Fund and the European Central Bank recommended using automatic fiscal stabilizers and publicly condemned "fiscal activism" and especially tax incentives through calls to a policy of keeping the budget balance and keeping debt under control, now they provide loans and support recovery programs adopted by national authorities. The economies of some states have already begun to revive, registering a slight increase in the last quarter, with the unprecedented price growth of the public debt. Romania, which came later in the crisis, demonstrates the reality according to which inaction has its costs; it can increase public debt without paying tax incentives and without starting an extensive program of investment in infrastructure.

Without prejudice to the independence of the National Central Bank relative to the executive power, there is still needed in times of crisis, the consistency of monetary and fiscal policies. The set of measures taken by Romania surprises by its lack of consistency that translates into poor efficacy and prolongation of suffering and social costs growth for ending the crisis. An array of measures taken in terms of a matrix of type "expansionary policies – restrictive policies" leads us to conclude that the two policies are not converging. At the political class level, a consensus is necessary for renouncing to populist practices that influence the electorate at the end of mandate because the traditional opportunist politico-economic cycle applied in our country after 1990 had various effects regarding the growth of budget deficit in election years, which influenced the economic activity in the post elections period. There is also necessary an increase in public awareness, an aggregation of civil society to ensure a shift from a naive electorate that decides on an emotional level, to a sophisticated electorate who decides on a rational level, able to assess subsequent behavior of policy makers in terms of stated objectives and the ability to put into practice the electoral promises. A first step towards the political accountability in fiscal matters, but also to raise public awareness is the adoption (April 2010) of the fiscal and budgetary responsibility law.

The law has as regulatory object, multiyear budgeting procedures setting limits on budget revisions during the year, the tax rules on total expenditures, staffing and budget deficit, and the establishment of the Fiscal Council. By law, the decision-makers of political parties can request the Prime Minister or the Fiscal Council to calculate the financial impact of the proposed and publicly announced policies. Electoral promises will have to be accompanied by a detailed description of the proposed policies and the calculation of the financial impact.

Fiscal Council, as a consultative body on tax matters, government budget and macroeconomic projections, will verify data from the relevant institutions, consisting of five persons appointed by the Romanian Academy, the National Bank of Romania, Bucharest Academy of Economic Studies, Romanian Banking Institute Romanian Association of Banks.

The main threat is related to the accumulation of budget deficits that will make difficult to manage the public debt. Romania's public debt, far from the 60% of GDP set by the Stability Pact, agreed in the Treaty of Maastricht, however, grew very rapidly in the last two years, when nearly doubled.

Along with public debt sustainability, a strong threat is also the ageing degree of population and the budget transfers related to the coverage of the pension fund. All these threats and risks lead to the idea of increasing fiscal responsibility, adopting a medium and long-term vision on budget balance and a convergence of monetary and fiscal policies.

3. FISCALITY AND ECONOMIC ACTIVITY

In modern economies, the authority empowered to manage public affairs of the community is the state. In their approach, public authorities assume a number of responsibilities, according to the doctrine of the government in power.

Fiscality is an area that has undergone the most significant changes in the past decade, but they have been too slow or too fast, leading to consideration by the taxpayers of this phenomenon as a factor of instability in the development of the Romanian economic system. Government, resulting from the election process, prefers to intervene or not in the economy, providing a higher or lower volume of goods and services, which is reflected in the volume of financed public spending. But whatever the economic and political foundations of doctrine would be, the government monitors the welfare of citizens, a goal which can be achieved using several means of financial policy, including the leverage of public spending. From this perspective, the four roles assumed by the state are: the distributive role, regulative role, stabilizing role, the role of the insurer.

The way in which public goods and services are allocated in society is a matter of controversy in the practical and academic environments. One point of view is that the state should provide these goods and services directly, while another point of view is that which supports the growth of individuals' income and purchasing goods on the market in the desired amount.

In both cases it can be invoked the pros and cons related to the way they can purchase goods and services, the prices at which they are available (and the way of ensuring their supervision), the information available, the management of positive and negative externalities.

This judgment, however, can come into conflict with liberal views on interventionism, considered a constraint of individual freedoms. However, the regulatory role of the state influences the decisions of producers and consumers, reducing monopolies and externalities. It also occurs this role in order to reduce information asymmetry regarding market conditions and information that are either not available or are too expensive. Of course, state regulation can be seen as confining individual freedoms, but they are absolutely necessary in the present circumstances, otherwise they would form a social order that many would consider it hostile.

The public interest would be secured by preventing the formation of income and unlawful assets and excessive monopolization of economic activity and prevent market failure when budget figures are combined with economic performance and welfare of the population, questioning the state performance and the budget spending efficiency.

First, public services and services of general interest, as it is called, should be recognized not only in rhetorical speeches, but to be brought into line with economic and social policies based on solidarity and fairness, and public services excessively liberalized should be subject to more stringent regulation and a more severe control, according to European requirements.

Any economical discussion on budget starts from the mechanism resource-results-income-impact. Budgeted activities should have as finality an impact defined by the added value resulting from that activity (eg, productivity transfers generated by a better education and specialization). Construction of performance indicators is not, however, always an easy task. Though, public sector performance measurement is of particular importance because quantifiable objectives are likely to succeed.

To obtain a reliable quantification, three rules should be followed in this process:

- Precise definition of the quantified object;
- A rigorous quantification of the object;
- Establish consequences in case of deviations;

In the public sector, these rules are difficult to apply because, often, the most important activities are the most difficult to quantify. Moreover, rules should be adjustable, incorporating behavioral changes. Since direct quantification is not possible, it is used a reference system (benchmarking) in which the results in a country refer to one or more countries considered referential.

As a result, we believe that a simple quantitative approach to budget expenditure is not enough, being necessary to corroborate them with performance indicators showing the efficiency with which public money is spent.

Linking the level of public expenditure with its efficiency can be done by consulting indicators showing positive impact on the economy and society. The discussion on the efficiency of public spending becomes contradictory when considering indicators of corruption, the quality of the judicial system, life expectancy, infant mortality, efficiency of bureaucratic efficiency education, poverty, etc.

The domains of education and health represent a public spending in human capital that able to increase the productivity and welfare. According to financial decentralization, the majority of these expenses is undertaken by local authorities, assuming that they know better the situation in those areas and can spend more effectively the amounts. However, considering how the amounts are presently allocated, these lead only to a waste of public funds, the main cause being the lack of sustainable programs. The amounts allocated to education and health have a questionable finality, not fulfilling their mission of promoting the growth of living standards. Quitting profession, emigration, dropout, low productivity and income, the existence of entire areas with high risk of exclusion of young people over 15 years (up to 30%) are only an illustration of the lack of efficiency of education expenditures. Efficiency of public spending is ultimately a question of credibility for the government, and for the government to be credible it must boost corporate governance, transparency and prepare performance-based budgeting. A government that pursues the performance objective envisages the allocation of resources, cooperation and coordination, forms a culture of results, sets up a system of rewards and sanctions.

To this end, a strategic approach, and not a fragmented one, is preferable, which is why public sector governance is essential in running modern states. It involves cooperation between all state entities, ministries, trade unions, civil society, taxpayers, and beneficiaries of public funds in decision-making, aiming at the improvement of welfare. To ensure effective governance, all listed entities should behave according to social norms: public authorities to formulate rules and best practices for development of economy and society, public institutions to provide public goods and services accepted by society, taxpayers comply tax laws etc.

In the relationship between the entities empowered to ensure good governance, the organizational culture is essential, being promoted by the government. This consists of all rules of behavior and beliefs that define how individuals interact and induce a sense of identity to employees by promoting agreed rules regarding the administration of public institutions.

Considering the presented issues, we consider that the government and public bodies should adopt an appropriate course of action to improve the performance and efficiency of public spending.

In order to implement changes in the state's organizational culture, public servants should have a behaviour oriented to beneficiaries of public services, defining a set of agreed values of community, alignment procedures with international practices, encouraging steps and actions that consider performance.

The positive role of governance in economic development is obvious. The first and most important is that it supports the society to achieve its goals and impose the rule of law. If governance rules are not imposed, a number of negative effects will occur, such as waste of funds, corruption, tax increases, etc. Since public activities are largely bearing rent, if these are not subject to transparency and accountability, decision makers will encourage corruption, hinder innovation, private initiative, and market mechanisms inducing adverse effects on economic and social targets. In this way, the interests of the political class are removed from the interests of society, generating corruption and benefit concerts.

The credibility of the public sector is supported by a number of factors, including transparency. A lucrative definition to transparency should include the following attributes: accessibility, clarity, relevance, quality, stability laws and regulations. Given the multiple facets of transparency, its definition is not easily discernible.

From a certain point of view, transparency is the availability of information on legal regulations, while another point of view focuses on more general objectives such as communicating the intentions of public authorities.

The first view is fundamental and cannot be subject to controversy, involving measures to inform the public about the decision making process, while the second point of view involves the consideration of values, preferences, attitudes and customs.

This becomes a particularly interesting aspect, because it summarizes two factors stimulating welfare, namely governance and markets. A larger opening to the public allows better information of communities regarding political decisions, improves government's liability and reduces corruption and, in economic terms, allows a more efficient allocation of resources and stimulates growth.

Complementary, liability is necessary to internalize indirect costs of fiscal indiscipline as sanctions for nonconformity with budgetary regulations. Liability becomes operational, but only with the identification of the responsible persons and the liability object.

4. CONCLUSIONS

Currently, some of the Government's demarches can generate distrust among Romanian businessmen and foreign investors. The government must understand that in order to run projects, businesses need continuity and predictability of laws, particularly in the fiscal area. Also, business environment expects a reduction of taxation, particularly on employment, earnings decline in this line can be compensated by applying tougher measures to combat financial evasion and smuggling. Reentering on Romania's economic growth can be done only by stimulating economic activity and particularly in the private sector. Investors should be encouraged to operate in the public private partnership - not just declaratively but through concrete measures to stimulate this type of projects. Unfortunately, the government currently has no coherent economic program, with clear priority areas, taking into account business opportunities - not fewer - they provide to our country.

At this point it is very important that the Government strengthen confidence in the Romanian business environment and promote key areas of the Romanian economy - agro-products processing, energy, particularly green energy, tourism, health tourism, in particular, information technology and automation, the possible situation resort to fiscal measures.

It is imperative to encourage the private sector, to reduce taxation and bureaucracy, increase access to European funds - effective solution for project financing, including the state (infrastructure projects, for example), the activity of state enterprises and autonomous administrations to be more effective, to reduce arrears and not encourage the policy of "socially assisted" but to encourage job creation.

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