

Considerations Regarding the Mix of Anticrisis Fiscal Policies in Romania

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Abstract. *The last centuries, it has been noticed that the economic activity does not unfold linearly, that the expansion periods are followed by a contraction of the economic activity, that the peak moments cannot be maintained endlessly and that, after recession, a relaunch of the economic activity may occur. The political and economical cycles, emphasized by the last decades, made people talk more about the countercyclical policies and about the behaviour of the politicians seen in strong connection with the behaviour of the voting population.*

To reduce the effects of the current crisis, the state uses fiscal incentives, this representing a combination of public expenses and a reduction of the taxes for the companies and the households which aims at the revival of the economic life, the increase of employment and the recovery of the business environment.

The countercyclical policies are known and applied all over the world, each responsible government choosing those instruments of budget and fiscal policy which best match the concrete possibilities of economy and correspond with its political doctrines. Thus seen the mix of fiscal policies is firstly a political choice, but with a strong impact on the economy of a country.

Keywords: fiscal policies; political and economical cycles; fiscal stimulation; budget deficit; fiscal stabilizers.

JEL Codes: E62, E65.

REL Codes: 8K, 8M.

Introduction

The economic activity is characterised by a unpredictable fluctuating evolution, which can be predicted only by a predictable linear evolution. The random fluctuations are determined by a series of factors with accidental or random action which can be repeated with a certain regularity, but also by unusual events like natural catastrophes or special political and social events (wars, revolutions, large or long term protest actions etc.).

The seasonal fluctuations regularly unfold under the impact of some natural or social causes like the seasons variation, the customs, the traditions or the holidays.

Regardless of the random and seasonal variations, there have been identified a series of cyclic fluctuations determined by factors which are connected to the function of the economic activity, by the interdependencies between its components which are reproduced with a certain regularity and intensity. *“The cyclic fluctuations represent those undulatory forms of movement of the economic activity from a country where the stages of expansion alternate with the decrease and stagnation ones”⁽¹⁾.*

The fact that, under the impact of the economic globalisation, at the same time with the growth of interdependences between the national economies, the macroeconomic cycles have started to be subscribed to a convergence process and by analogy the cycles to engage the regional and global economies through synchronisation, becomes obvious.

The economic cycle represents the succession in time of the regular modifications of the conditions and the results of the economic activity, by identifying four stages:

- *economic expansion*, represented by the increase of the actual GDP;
- *peak*, the point in which the economy uses at a maximum the production capacities, the aggregated request is the highest and the unemployment is close to its natural rate;
- *recession*, the reduction of the economic activity represented through the decrease of the actual GDP, after two consecutive trimesters;
- *depression* represents the point where the aggregated request reaches the lowest level, the unemployment rate is the highest, there is reticence towards investments.

The economic cycles, according to the time horizon to which they refer, are classified as follows:

- long, secular or Kondratieff cycles (after the name of the Russian economist who identified them in 1926);
- the decennial or Juglar cycles;
- short cycles with a duration of six months to three years.

The current crisis, different from all the others, resulted from the alignment of those three cycles at their minimum level, based on a “mathematical delay of six to nine years” (Dinu, 2010, p. 344) at the beginning of a new Kondratieff cycle, when the innovation from a technological and social point of view, specific of the breaks of rhythm which a new Kondratieff cycle brings, was abandoned in the rush for the speculative earnings in the sphere of financial economy.

1. The political and economic cycles

Ever since the middle of the last century, the literature has emphasised the connections between the economic cycles and the political cycles, respectively the manner in which the political calendar, the political agenda of the parties elected, influence through the fiscal, budget and monetary policy measures, the status of some macroeconomic indicators, like the economic growth, the unemployment rate, the budget deficit, the public duty or the inflation rate.

There have been identified two fundamental models of behaviour of politicians which generate two types of political and economic cycles:

- *The opportunist cycles* promoted by the governors who, from the desire to keep their power, adopt various measures of fiscal, budget and monetary policies in order to maximise the chances to be re-elected;
- *The partisan cycles* promoted by parties based on their ideological orientation. Such a left wing party shall act for the reduction of the unemployment, easily assuming an increase of inflation and of some categories of expenses for social insurance, health, pensions. A right wing party shall reduce the taxes through a relaxation of the fiscal policy and shall reduce the expenses with the social insurance. The left wing politicians as well as the right wing ones shall aim at obtaining the economic increase, but if the left wing aims at this objective through the increase of the global demand, the right wing is interested in the increase of the aggregated offer. Thus, the alternation at the government engages political and economic cycles which are completely different.

We should not see the things only through the behaviour of the elected politicians, because an analysis of the voters' behaviour is also necessary, being known the ability of the politicians to adapt to the exigencies of the voters. Thus, there have been identified two types of behaviour of the voters:

- The naive voters - who decide at an emotional level, with a short memory, sensitive to “election charity” offered several months before the elections, who can unfortunately be “bribed” around the elections;
- The sophisticated voters - who decide at a rational level, able to evaluate the behaviour of the political decision makers through the means of the declared objectives and the abilities to translate the promises into practice.

By comparing the behaviour of politicians with the behaviour of the voters, the result is a matrix of political and economic cycles, presented in Table 1:

Table 1

| | | The politicians' behaviour | |
|-----------------------------|-----------|--|---|
| | | Opportunist | Partisan |
| The behaviour of the voters | Emotional | The political and economic opportunist - traditional cycle | The political and economic partisan - traditional cycle |
| | Rational | The political and economic opportunist - rational cycle | The political and economic partisan - rational cycle |

Source: Adaptation after Nicolae – Marius Jula – *Ciclurile politico economice în România*, în Revista Ecologia Universitaria, anul I, nr. 1/2009, p. 61.

Anthony Downs has noticed that the elected parties “formulated policies in order to win the elections, instead of winning the elections in order to formulate policies”⁽²⁾ this being a proof of the opportunism in the machiavellic meaning of the word. It is the moment when the left wing parties abandon the doctrine and pass to liberal measures, while the right wing parties find themselves interested in the raising of salaries and pensions, several months before the elections, from the obvious desire of winning at all costs.

Thus, the political and economic opportunist - traditional cycle, identified in 1975 by Nordhaus, starts from the premise that the result of the elections shall depend on the macroeconomic performances from the last part of the mandate and when the opportunist political decision maker wishes for an inflation - unemployment cycle corresponding to its mandate length to record a boom before elections. This behaviour contains a dose of assumed political cynicism because the decision maker either shall win the elections and shall have to deal with the recession that shall occur, or shall lose the election and shall watch from the opposition as the new governors shall fight the recession.

The political and economic rational opportunist cycles, emphasised by Cukierman and Meltzer in 1986, show a capacity of adaptation of the politicians' opportunism in front of a more informed, more sophisticated and,

thus, more exigent public. In this situation, although the inflation rises before the elections, the effects of the economic cycle do not have the same amplitude because the public, being informed, knows the side effects of the medication prescribed by the governors.

The model of the political and economic traditional partisan cycles, elaborated by Hibbs, starts from the simplification of the political scene in left wing and right wing parties, each acting within the predictable doctrinal limits.

With a less educated public, the left wing parties, as well as the right wing ones shall follow an economic cycle that records an economic boom before the elections. For this the traditional left wing parties shall protect the interests of the workers, shall try to reduce the unemployment rate and shall leave behind important budget deficits and a high inflation. The right wing parties shall reduce the taxes, shall encourage the economic growth by increasing the aggregated offer, provoking an economic boom at the end of the mandate.

The political and economic rational partisan cycle, presented in the works of Alessina starting with 1987, reflects a political and economic system in which the right and left wing parties respect their ideological orientations, and the voters are informed, rational, capable of analysing prospectively the social and economic realities. In this case the voters shall elect the party which is expected to bring the maximum of utility through the policies it shall promote.

By reuniting the partisan model with the opportunist one, Frey and Schneider, in 1978, developed a model they called "dependent on the context". Thus, starting from the idea that the political manipulation has important costs and risks when they enjoy the popularity, the politicians shall not consider the populist measures necessary, shall keep the ideological accuracy and shall not produce opportunism proofs. On the contrary, when the popularity is decreasing, the politicians shall be drawn by the active opportunist and/or partisan policies in order to win the elections.

The political and budget cycles

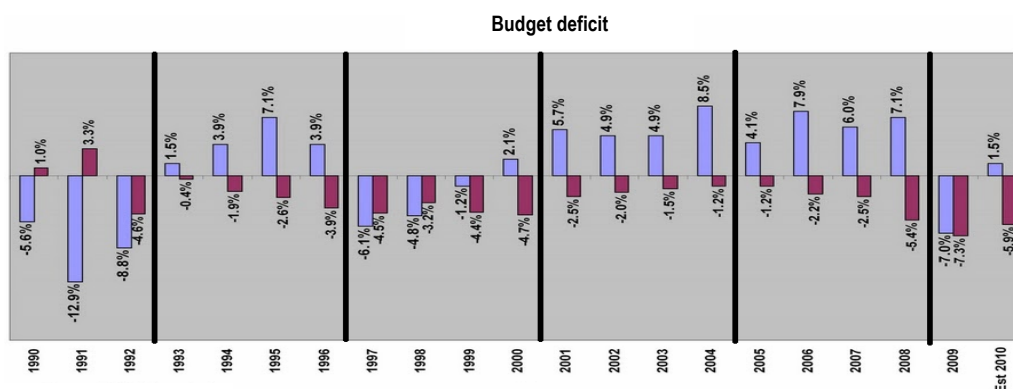
It is obvious that the fiscal and budget policies are at the disposal of the governors and that they can be used in order to influence the result of the elections. For Romania, the alternation to the government has produced starting with 1996, when PSD lost the government as well as the presidency in favour of the alliance run by Democratic Convention.

Table 2

The rate of inflation 1990 - 2009

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---------|---------|---------|---------|--------|--------|---------|---------|--------|--------|
| 170.20% | 210.40% | 256.10% | 136.70% | 32.30% | 38.80% | 154.80% | 154.80% | 40.60% | 45.80% |
| 2,000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| 45.70% | 34.50% | 22.50% | 15.30% | 11.90% | 8.60% | 4.87% | 6.57% | 6.30% | 4.74% |

Source: NBR.



Source: NBR. Eurostat.

Figure 1. The evolution of GDP and of the budget deficit, 1990-2009

In 1996, PSD lost the elections where they applied the traditional partisan policies represented by the increase of the budget deficit during the electoral year, after a certain stability during the second part of the mandate.

The government run by Mugur Isarescu, independent from a political point of view, after during the pre-electoral year it reduced the budget deficit under 3% from the GDP, it had to make another series of concessions, represented by the increase of the budget deficit during the electoral year 2000 to 4.7% from the GDP, and despite all this it lost the elections.

The year 2004 is the first electoral year when the government reduces the budget deficit, compared to the previous year, the lack of opportunism being awarded by the voters with the loss of the elections by PSD.

In 2008, the liberals, running a minority government, used a traditional opportunist cycles, represented by pension and salary increases, as well as the one of the budget deficit to 5.4% from the GDP, compared to 2.5% recorded the previous year. They lost the elections and the new government formed in 2009 obtained a majority through the post-electoral coalition PDL + PSD. Unfortunately, together with the continuance of the president's mandate, 2009

was an electoral year as well, the presidential elections found a PDL minority government which applied traditional opportunist policies, hardly managing to impose their candidate to the presidency with the price of a budget deficit of 7.3% from the GDP, which forced the government in 2010 to take measures of decreasing the salaries of the people working in the state system with 25%, or the increase of the VAT with 5 percentage points, which would affect the popularity.

The historic period analysed, although short, may lead to the following conclusions:

- The opportunist policies, although they implied high costs, lead to the loss of the elections in 1996, 2000, 2004 and 2008. The only time when the elections were won based on them was in 2009, but the stake was only the election of the president.
- The parties seem to give up very easily the ideological dimension of the policies which they promote, being very difficult to be recognised by the European political families to which they are affiliated.
- The voters take decisions based on emotional motivations rather than rational ones, the election campaigns contain all sorts of scandals which fill up the electoral agenda instead of serious debates for a prospective, rational educated public.
- Every time the new governors brought to the discussion the “heavy legacy” of the previous government, during the first part of the mandate, and during the last part they would make sure that they would leave the same type of legacy.

The political and monetary cycles

The specific approaches of the political and economic rational partisan cycles model are formalised in the model Allesina-Sachs⁽³⁾, starting from the hypothesis that there are only two political parties, one (A) with left wing views, favourable to the increase of the employment, and another one (B) with right wing views, which has a greater respect for the stability of the prices. The model take into account the following hypotheses:

- The monetary policy is discretionary and predictable;
- The public, although it knows the objectives aimed at by both parties, does not know the level of the increase index of the prices during the post-electoral period;
- The public anticipates the rate of inflation which can be calculated as a weighted arithmetical average of the rates of inflation anticipated by the two parties, the weighting being done according to the probability of winning the elections by each party. For example, if party A aims at

an inflation of 10% a year and has 40% chances to win the elections according to the last polls, and party B aims at an inflation of 6% a year and has 60% chances of winning the elections, then the anticipated inflation is of 7.6%.

$$\text{Anticipated inflation} = (10 \times 40 + 6 \times 60) / 100 = 7.60\%$$

- After the elections, the economy shall feel the difference between the inflation that shall be turned into reality by the winning party and the anticipated inflation. In our case, if party A wins the elections, the respective inflation shall be higher than 2.4 percentage points compared to the anticipated inflation, and if party B wins the elections, the effective inflation shall be inferior with 1.6 percentage points. Drazen and Eslava criticize the premises of the Alessina-Sachs model, because it starts from the “crucial assumption that the politician in his fight for the re-election disposes of the control of the monetary policy, assumption which is not in concordance with the independence of the central bank.”⁽⁴⁾ However, Silviu Cerna draws the attention on the fact that the “legal independence does not impede the occult influence of the politicians” who “are more than skilled in order not to find the ways to exercise the influence on the regulatory centre of the currency quantity, even if for this they must resort to other ways.”⁽⁵⁾

In conclusion, the effort of the politicians to manipulate the economy through the means of the fiscal policies than the use of the currency policies, under the control of the central bank which enjoys a certain degree of independence related to the executive power, is much more obvious. If we refer to post-communist Romania, it is clear that the political parties have at least two reasons to give up the opportunism, the populism and the last minute manoeuvres to win the elections:

1. Not only they do not guarantee the success, but we could say that on the contrary in proportion of 80% they lead to the loss of the elections (the last 14 years).
2. The public, although it does not elevate to the level of the rational or prospective educated public, receives without obligations the electoral charity and does not vote with the power.

If we take into account the delay of the electoral cycles through the separation of the legislative elections from the presidential ones and shortening of the electoral and political cycles (elections in 2008, 2009, 2012, 2014, 2016, 2019 etc.), it would be normal that the political parties gave up opportunism and their aggravated form of populism, the references regarding the heavy

legacy and they should concentrate on the coherent governing programs in concordance with their doctrine and the interests represented by them.

2. The mix of anti-crisis fiscal policies

The current economic and financial crisis has a strong effect on public finances, meaning that the reduction in economic activity has led to a decrease in budget revenues, to the increase of the deficits and of the public debt. In addition, the support provided to banks with problems in major industrialized countries, resulted in pumping liquidity into the system but also the doubtful acquisition of assets, will eventually be found in the public debt as well.

Countercyclical fiscal policies

Countercyclical policies developed “as a better understanding of the interdependence of economies and the increased information on economic developments” (Băbăiță et al., 1999, p. 209) and consist of a series of macroeconomic measures taken to mitigate the impact on economic recovery in the downward phase of the economic cycle respectively adjusting the amplitude of the disturbing cyclic phenomena.

Countercyclical policies based on influencing the global demand use the Keynesian concept that business fluctuations are due primarily to the unwanted gap between global demand and aggregate supply. In this regard fiscal policy acts on the economic situation in changing the level of taxation to stimulate or stop the investment and production. Thus the extended economic boom period of increased taxation leads to a reduction in the disposable income which has the effect of reducing economic growth, while in times of recession a tax reduction makes the disposable income increase and on this basis a stimulation of the aggregate demand takes place.

The public expenses can act on the global demand through the state acquisitions, investments in the infrastructure, social assistance etc. As a consequence, during the recession the budget expenses are increased risking the budget deficit which can be absorbed in the expansion stage, once the budget expenses are reduced.

Countercyclical policies based on stimulating aggregate supply are designed to stimulate producers by providing material and fiscal benefits, granting subventions with an impact on volume, structure and quality of goods and services.

There is a link between increased tax and tax productivity revealed the Laffer curve, meaning that we expect an increase in tax revenue as the tax increases only up to a certain level, after which the productivity starts to decrease whatever the level of tax increase (Figure 2).

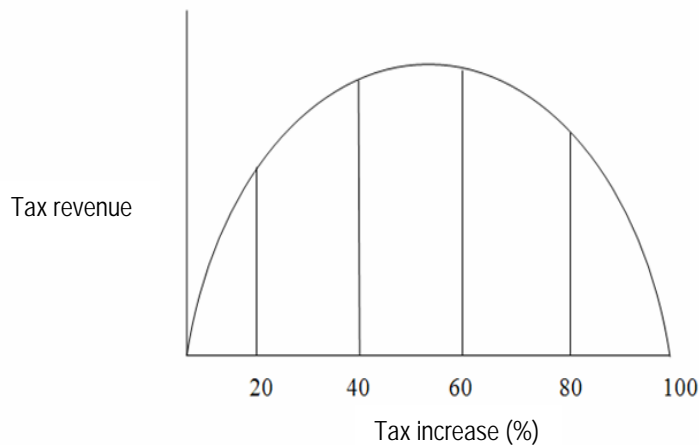


Figure 2. *The Laffer Curve*

Empirical studies show that over 60% share of any increase in taxation leads to lowering the volume of revenue.

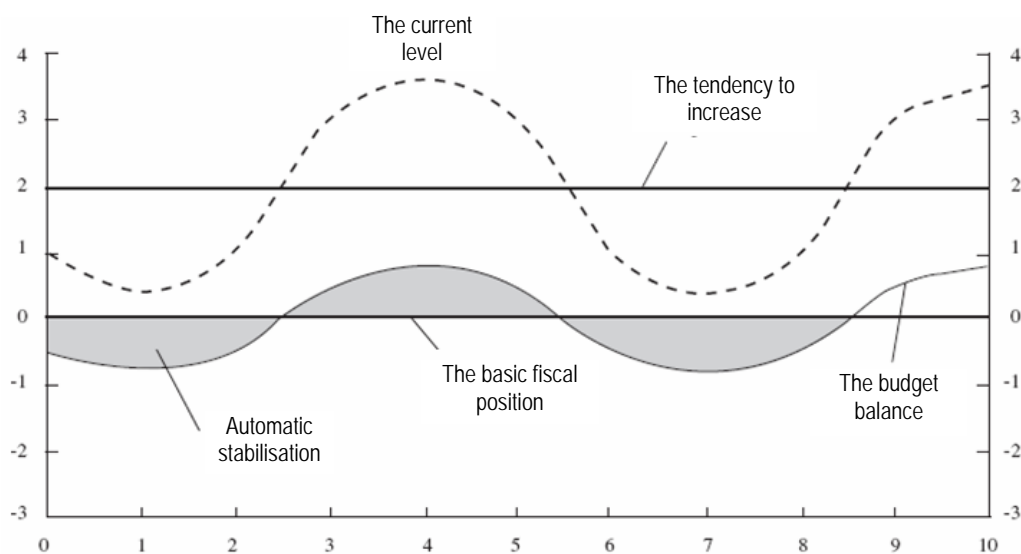
Fiscal stabilizers

The traditional concept of economic automatism, derived from the liberal conception, is not too far from the principle of Adam Smith's invisible hand, when using fiscal policy as a technique for stabilizing the economy. The observation is valid because in periods of economic boom the tax revenues and fees increase as well, while in periods of recession with lower incomes both the consumption and income to the state budget are lower, especially when the taxation is applied in proportional percentage quotas, as it is the case of the flat tax in our country. Government spending also have a stabilizing influence on the economy, especially when they are set as a percentage of GDP for some areas (e.g. a fixed percentage quota of 6% for education), and they could be countercyclical as any social benefits for unemployment that increase during recession periods leading to increased aggregate demand. *“There is an automatic stabilizer included in the budget balance. Surpluses are reduced or turned into deficits and deficits are increasing during a recession when tax revenues fall and welfare costs increase. This helps maintain the aggregate demand. The things happen exactly the other way around during the period of economic growth”.*⁽⁶⁾

According to Albert Hart (1956, p. 425) the automatic stabilizers are recognised following the criteria:

- lead the budget to surplus in the growth phase of economic cycle and the deficit in case of recession,

- decrease the cash stock of the population in times of prosperity and increase it in times of recession;
- tend to increase public demand for cash in times of prosperity and to reduce it in the periods of decline;
- act without waiting for decisions makers.



Source: www.bce.com.

Figure 3. *The action of the automatic stabilizers on the economic cycle*

After Norman Keyser (1956, pp. 422-441) automatic stabilizers join in the mix of stabilization policies other types of stabilizers such as:

- flexible stabilizers, allowing changes in tax rates depending on the signals coming from the economy;
- discretionary stabilization policies pursued by the agencies, boards or body vested with discretion;
- institutional stabilizers such as employers' associations, trade union confederations, associations.

The Pact for Stability and Growth ensures the corresponding principles for the fiscal policy conduct in the Euro area. These principles specify especially the manner of adjustment of the structural budget balance to the fulfilment of the medium term objective consisting of the “surplus position or almost zero”, whose level is specific to each country. These objectives on a medium term have been set at a certain level which ensures the fiscal

sustainability, as well as a sufficient margin to act in order to avoid exceeding the reference level of 3% from GDP in case of normal economic fluctuations. Indeed, the countries which have achieved their medium term objectives are free to allow the automatic stabilizers to operate and contribute to the mitigation of the economic cycle. The more countries in the Euro area are in such a position, the more freedom of action for the automatic stabilizers at the aggregate level of the Euro area, contributing to the good functioning of UEM.

The advantages which come from the automatic stabilizers operation are known. In contrast to the discretionary measures, these are not affected by the time delays in the decisional process. Also, their action is not determined by the political factor, and their economic impact is adjusted according to the economic cycle. In addition, experience of previous decades recommends a prudent conduct.

Recent experience supports the advantage of automatic stabilizers, but also show that budget spending levels higher than 40% of GDP no longer generate additional benefits in terms of stabilization. The automatic stabilizers operation on the part of the expenses can be interpreted in a wrong way as an argument for exceeding the public expenses limits, situation which can be difficultly reversed. Finally, there are significant uncertainties regarding the measurement of GDP deviations from its potential level and therefore the extent to which automatic stabilizers already affect the economy.

In conclusion, the euro zone countries with significant budget deficits and the still high share of public debt must focus on building requirements set by the Stability and Growth Pact to be able to meet medium-term objectives. Achieving these goals will enable the free and full automatic stabilizers in these countries, thus contributing to smoothing the business cycle. Thus, countries must resist the temptation to resort to fiscal policy to fine-tuning the economy in the short-term, as this could adversely affect growth potential and long-term fiscal sustainability. In this respect, the euro area countries should take into account the lessons of the '70 and have solid and prudent fiscal policies of a consistent manner. Finally, a discretionary fiscal stimulus may generate also inflationary pressures. In a time when inflation in the euro area records high levels, the additional stimulus from fiscal policy will increase the risks to price stability. Even small fiscal stimulus could have lasting negative effects if they contribute to increased inflation expectations.

Fiscal stimulation measures

The current financial and economic crisis, through its virulence, has cancelled the ability of the automatic stabilizers to answer, as they have for the last 50 years, to the fluctuations which affected the world economy, reason for

which the more affected states have already passed to large fiscal stimulation programs.

Fiscal stimulus is a combination of public spending and tax cuts for companies and households seeking recovery of economic activity, raising employment and improvement of the business environment.

Romania entered the recession in the first part of 2009, after recording in 2008 the greatest economic growth, which was largely reduced in the last trimester. The main data are the ones presented in Table 3 from which an increase of the share of the budget deficit in GDP results, as well as the public debt.

Table 5

**The evolution of the economic growth, of the budget deficit
and of the public debt in Romania**

| Year/ Indicator | 2005 (%) | 2006 (%) | 2007 (%) | 2008 (%) | 2009 (%) |
|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Economic growth | 4.2 | 7.9 | 6.3 | 7.9 | -8.0 |
| The budget deficit in GDP | 0.8 | 1.7 | 2.4 | -5.4 | -9.2 |
| The public debt in GDP | 20.4 | 18.5 | 16.5 | 20.5 | 28 |

Source: Eurostat, Wikipedia.

If in 2008, it was believed that Romania would remain an oasis of prosperity and that it would not be affected by the crisis, the first months of 2009 lead to an attitude change and as when a person who feels ill goes to the doctor, the government went to the IMF, which acted quickly and professionally.

The main provisions of the Agreement with the IMF are:

- Setting some trimester performance criteria for the budget deficit;
- The Ministry of Public Finances shall provide on a monthly basis data for the evaluation of the budget situation, including the external net finances, the credits from the internal financial system, the advance payments from the European Funds, the applications for European funds of the Government;
- Providing the Ministry of Finance and the Ministry of Labour, but also other institutions, all data on public companies in monitoring at the beginning of the agreement with the international institution and sanctions for failure to fulfil the targets set;
- Setting an indicative target for the rate of inflation;
- If the annual inflation exceeds the ranges, the NBR will discuss with IMF experts for evaluation. If consumer prices vary by more than two percentage points from the central level, then the authorities will have

consultations with the Fund on measures to be adopted, without which the agreement can not continue;

- NBR should prompt additional capital requirements for commercial banks based on stress tests in order to ensure that the solvency ratio of each institution will be maintained above 10%, level two percentage points above the legal minimum in force, 8%;
- Stress tests will be applied to all banks that have a market share of the assets over 1%, and smaller credit institutions, selected based on credit quality and portfolio vulnerability, the evolution of the non-performing loans in the last year and the current solvency rate;
- The central bank will consider two scenarios for stress tests, that the macroeconomic framework envisaged in the agreement with IMF, but also a much more pessimistic variant in terms of growth and exchange rate, and the latest data available related to the financial statements of banks and companies to forecast the evolution of banks' balance sheets in the two scenarios. NBR will use its own macroeconomic model for determining the development of other macro indicators;
- Analysis of stress test results and capital needs assessment will be made in consultation with IMF experts;
- The net international reserves of NBR may decrease in a controllable manner.

Following the Agreement with IMF, the Government chose to reduce the salaries of the people working for the state system by promoting a unique law of salaries in 2009, followed by a reduction with 25% of the salaries in the second part of 2010, at the same time with the increase with five percentage points of the VAT which thus reached the level of 24%.

3. Threats and risks

The main threat is connected to the accumulation of deficits which shall lead to the increase of the public debt through the loans that the state contracts from the resident economic agents or from financial institutions from abroad.

“As the deficits are increasing the national debt is increasing; such a process cannot unfold forever in reality. In the end the public debt shadows completely or replaces other assets and the crowding out phenomenon becomes so spread that the public has to expect an action to balance the budget. This action would involve inflation, special taxes or reduction in the government expenses” (Dornbusch, Fishcher, 1997, p. 469).

According to the currency theory, the increase of the governmental expenses determines the partial or even the total elimination of the private

expenses. When the expenses with the interests afferent to the public debt service reach a significant level, the premises of the occurrence of the crowding out phenomenon are created, moment when the fiscal policy must be correlated with the monetary policy in order for the real economy to have access to loans.

Commenting the policy mix from 1964-1965, when the United States of America came out of the recession through tax reductions and taxes combined with an expansionist monetary policy (interests reductions), Arthur Okun (1970, p. 59) makes the following comments: *"the monetary policy could not have been able to accelerate the rhythm of the economy on its own, it offered economy a good set of wheels, but the fiscal policy was the true motor of the growth."* It is clear that, notwithstanding the principle of interdependency among central banks, a correlation of the efforts is necessary from the part of the persons responsible with the economic policies from the government, as well as of the authorities responsible with the application of the monetary policies. Only the coherence of these policies could ensure the management of the public debt after overcoming the current economic and financial crisis.

The public debt has already reached threatening levels in the United States of America, \$10,025 billions (over 70% of GDP), France 1,428 billion Euro (74% of GDP), Germany 1.706 billion Euro (65% of GDP), and other countries exceed a lot more the level of the public debt of 60% of GDP set forth by the Treaty of Maastricht, countries like Belgium, Italy and Greece having the public debt level over 100% of GDP.

The public debt of Romania, still far from the 60% level, set forth by the Treaty of Maastricht, is situated on an increasing trend, without this increase to turn into the development of the infrastructure that is well outdated. The development of the infrastructure, itself an avanpost of the anticrisis policies, would justify a temporary increase in the public debt. Unfortunately, the worst choice would be the one to increase the public debt through the coverage of the pensions and wages payments in the unproductive sectors.

Romania's public debt is now 138.8 billion lei per capita which means about 6,609 lei, approximately 1,570 Euro, but related to the number of employees it means about 30,844 lei, approximately 7,340 Euro, that is the average salary in three years.

"The national debt creates a burden on the future generations through the reduction of the capital stock. This would mean that the government that records a deficit and creates an even larger debt, throws a part of the current governmental expenses burden on the future generations." (Dornbusch, Fishcher, 1997, p. 473). This is worth discussing because our country has not taken into account the problem of the criteria of fairness between generations yet, being very likely to find out that the youth of today inherits a huge debt

without anyone to identify object of that debt (motorway network, health system performance, modern education system, modern transportation means, etc.).

Another threat is the low degree of collection of the budget incomes in the GDP (28.8%) compared to the average of the European Union 27 (40.5% from the GDP). It is a modest level, Ireland, Spain, Portugal being placed under this threshold, and the majority of the Western countries are above it (the peaks being reached by Denmark, Sweden, Belgium, France and Austria). The low level of the GDP, as well as the share of the revenues from taxes and fees in the GDP, make Romania rank one of the last places in Europe and in the absolute dimensions of the fiscal budget revenues. Thus, in 2008 and 2009, these were, in our country, of almost 40 billion EUR, approximately the same as in Hungary (a country with a twice lower number of inhabitants).

Another threat, reflected in the CEB Report from June 2009, is related to the ageing process of the population and the budgetary expenses for the pension fund coverage. The ageing phenomenon of the population shall produce long term important effects, the European average of the expenses with the pensions in GDP shall reach 12.5% in 2060, some countries like Greece and Luxembourg shall exceed 24% from the GDP while in Latvia and Estonia it shall be 5% from the GDP. Romania shall situate over the European average with 15.8% from the GDP for the pensions payment.

The measures announced recently by the Government of reduction of the salaries with 25% and of the pensions with 15% implies a series of risks generated by the decrease of the aggregated demand and of the consumption, with an effect on the reduction of the work places, of the increase of social allowances, of the reduction of the budget incomes (salary tax, income tax, fees and VAT).

Such austerity measures are criticised by a series of specialists like Joseph Stiglitz in an article recently published in *Le Monde* “*Today, Europe wants a coordinated plan of austerity. If it shall continue on this road, it reaches disaster. We know, after the Great Depression of the 30s, that such a thing should not be done. Europe needs solidarity, empathy, not austerity, which leads to the increase of unemployment and to the accentuation of the depression. In the USA, when one of the states is in difficulty, all the others feel involved. We are all in the same boat. The viability of the European project is threatened firstly by the lack of solidarity*”.⁽⁷⁾

At the same time we should not avoid the real problem, that of the expenses with personnel which exceed the possibilities of the economy and at the same time the real needs of an efficient administration. The number of employees from the public administration has risen from 88,000 in 1990 to 155,000 in 2005 and reached the number of 227,400 on Dec. 31, 2009.

Conclusions

Already compared with the Great Depression of 1929-1933, the current international financial crisis has forced authorities to rethink the mix of fiscal policy crisis. If a few years ago the IMF and ECB recommended the use of automatic fiscal stabilizers and publicly condemned the “fiscal activism” and especially tax incentives through calls to a policy of maintaining budgetary balance and control of the public debt, now grant loans and support recovery programs adopted by the national authorities.

The economies of countries have begun to revive, recording slight increases in the last quarter, with unprecedented price growth of public debt.

Romania, which has entered the crisis later, proves the reality according to which the inactivity has its costs, which may increase debt even without granting tax incentives and without beginning a broad program of investment and infrastructure.

Notwithstanding the independence of the National Central Bank related to the executive power, a coherence of the monetary and fiscal policies in times of crisis is necessary.

The activist policies are recommended during this period for the monetary authorities, as well as for the executive power.

The set of measures taken by the authorities in Romania surprises through the lack of coherence which translates into a poor efficiency and through the continuous suffering and the increase of the social costs afferent to the overcoming of the crisis. A picture of the measures taken through the means of a matrix of the type “expansionist policies - restrictive policies” leads us to the conclusion that the two policies are not convergent.

Table 6

Measures of fiscal and monetary policy

| | Expansionist policies | Restrictive policies |
|--------------------------|--|---|
| Monetary policy measures | The reduction of the interest of monetary policy | |
| | The reduction of the level of the compulsory minimum reserve | |
| | The expansion of the loan | |
| Fiscal policy measures | | Tax increase |
| | | The reduction of the state employees' salaries with 25% |
| | | The increase of the VAT from 19% to 24% |

At the level of the political class, a consensus is necessary in order to give up the populist practices to influence the voters at the end of the mandate because the political and economic traditional opportunist cycle applied in our country after 1990 had as effects the increase of the budget deficit in the electoral years which reflected on the economic activity during the post-electoral period.

At the same time, an increase at the level of the public information, an aggregation of the civil society which ensures a passing from the naive voters who decide on an emotional level, to more sophisticated voters who decide rationally, able to evaluate the further behaviour of the political decision makers, through the means of the declared objectives and of the capacity of translating into practice of the electoral promises.

A first step on the line of the responsibility of the political class in terms of taxation, but also of increase of the degree of public information, constitutes the recent adoption (April 2010) of the Law of Budget and Fiscal Responsibility.

The law has as object of regulation the procedures of elaboration of the multiannual budgets, setting the limits regarding the budget rectifications performed during the year, the fiscal rules regarding the total expenses, the expenses with the personnel and the budget deficit, but also the constitution of the Fiscal Council.

By law, the political party leaders may request the prime minister or the Fiscal Council the calculation of the financial impact of the proposed and publicly announced policies. The electoral promises shall have to be accompanied by a detailed description of the proposed policies as well as by a calculation of the financial impact.

The Fiscal Council, as a consultative body in terms of taxation, budget and macroeconomic projections of the government, shall check the data centralised by the relevant institutions being formed of five persons appointed by the Romanian Academy, NDR, ASE Bucharest, the Romanian Banking Institute and the Romanian Association of Banks.

The main threat is connected to the accumulation of budget deficits which shall render the public debt very difficult to manage. The Public debt of Romania still far from the level of 60% from GDP stipulated in the Stability Pact, assumed through the Treaty from Maastricht, has increased though very rapidly in the last two years when it almost doubled.

For Romania, the real problem remains the low degree of collection of the budget revenues from the GDP (28.8%) compared to the European Union average 27 (40.5% from GDP), without the encouraging prognoses for the current year of for the following years to exceed 32% from the GDP.

A rethinking of the unique share is necessary because the efficiency of this fiscal policy is not as higher as in the beginning when it led to the increase of the budget revenues from 17 billion EUR before the unique share application to 22.5 billion EUR in 2005, and in 2009 it decreased the degree of collection related to 2008.

Together with the sustainability of the public debt, another strong threat is the degree of ageing of the population and the budget transfers related to the covering of the pensions funds. All these risks and threats lead to the idea of increasing the fiscal responsibilities, the adoption of a medium and long-term vision on the budget balance and a convergence of the monetary and fiscal policies.

Notes

- (1) According to Duță Alexandrina, Cismaș Laura (coord.) – *Macroeconomie*, Editura Universitatea de Vest, Timișoara, 2006, p. 111.
- (2) See Anthony Downs, *An Economic Theory of Democracy*, Harper & Row Publishing House, New York, 1957, p. 28.
- (3) See Allesino A., Sachs L., *Political Parties and the Business Cycle in the US 1948–1984* Money, Credit and Banking, Vol. 20, 1988, pp. 63-82.
- (4) See Drazen A., Eslava M., *The Political Business Cycle in Columbia on the National and Regional Level*. www.econpapers.repec.org/paper/co/001022001222.
- (5) See Cerna S., *Banca Centrală – Credibilitate și Independență*, Ed. Sedona, Timișoara, 2002, p. 48.
- (6) According to *The Economist*. “Ghidul indicatorilor economici”, Ed. Teora, București, 2001, p. 77.
- (7) See J. Stiglitz, *Le monde*, 22.05.2010.

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