PUBLIC REVENUES AND SOCIAL POLARIZATION IN ROMANIA

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Abstract

Romania's public revenues to GDP are among the lowest in the EU, 34% of GDP in 2014 due to tax evasion, and the structure of GDP, some components which are not subject of taxation or taxed less. A low percentage of government revenue in GDP can be a positive factor for a functional market economy that allow more financing sources for investments in private sector. However, tax evasion is very dangerous for the economy because the tax burden is borne only by the fair of economic agents which may go in bankrupt or cannot develop. GDP per capita in Romania is less than a quarter of the EU average. Social polarization is high in Romania, the Gini coefficient is quite high for Romania, 34% in 2013, which demonstrates the high degree of poverty for some social categories. Aligning EU prices for electricity and gas can generate lower standard of living and serious social tensions.

Keywords: public revenues, expenditures, tax collection, social polarization

JEL Classification: A11, B22, F02, G18.

1. Application of Laffer's theory to the realities of Romania

Macroeconomist Arthur Laffer was one of the architects of modern American economic policies. Laffer's theory (Laffer Curve) says that under certain conditions, tax cuts stimulate the economy and can bring greater public budget revenues, while tax increases may lead to reduced budget revenues if it passes a certain level of endurance tax burden.

An efficient tax system to ensure that economic development can be achieved by simplification, fewer tax to ensure those revenue necessary for the functioning of the state. Arthur Laffer present the benefits of applying flat tax on the economy which are very high especially in developing countries with relatively high degree of corruption and legislative instability. Tax amnesty is seen as a turning point for a tax system that is trying to become more accurate.

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Replacing a tax system where corruption is widespread with another fairer, simpler, transparent is good to be preceded by amnesty tax.

A modern tax system should encourage work should not pay lazy, non-working, and those workers who are supporters of functional economy not to overly taxing. A balance must be found, even if people do not like unpleasant things, and taxes must be made less unpleasant as possible. Spending public money must be based on the principle of efficiency and tax collection to be in the least harmful to the functioning economy.

Tax evasion can be combated only by a institution built on moral principles and professional competence. National Agency for Fiscal Administration must have personal integrity, from the inspectors to directors of administrations.

Creating a database with information related tax payers must be supported by analyzing the results of tax audits. You need a more elaborate economic sectors prone to great evasion and inspections must not be left to the discretion of the inspector but they must be made from a program well done, a soft match.

In Western countries eCommerce bring their significant contribution to the formation of public revenues and therefore in this area is necessary based on a thorough and appropriate software.

Production, purchase and import of energy products, alcoholic beverages should be carefully controlled and monitored.

Romanian Banking Association (ARB) and the National Agency for Fiscal Administration founded the electronic setting / lifting attachment of money held by borrowers at commercial banks.

All taxpayers should have an access to their tax file, which should be integrated into an electronic database more transparent. Tax returns should be much simpler and can be submitted electronically.

In western countries where assistance is provided online to contributors using the Internet, information technology and communications to us this is still a desideratum.

Collection of public revenues to the budget should be on the principles of efficiency and effectiveness and expertise of advanced states can be very useful. No expensive software must be purchased and unusable but some relatively cheap and good applicability to the realities of the economy of Romania.

Romania is the second smallest size of government revenue to GDP from EU data found in Table1.

Table 1

Public revenues as percentage in GDP

COUNTRY/ YEAR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU(28)	43,8	44,2	44,6	44,6	44,6	44,1	44,1	44,6	45,4	45,7
Belgium	48,9	49,3	48,8	48,1	48,7	48,1	48,7	49,6	51,0	51,8
Bulgaria	40,4	38,3	36,2	40,4	40,1	37,1	34,3	33,6	35,0	37,2
Czech Rep.	40,4	39,8	39,6	40,3	38,9	38,9	39,1	40,0	40,3	40,9
Denmark	56,4	57,8	56,6	55,6	54,8	55,3	55,0	55,7	55,5	56,3
Germany	43,3	43,6	43,7	43,7	44,0	45,2	43,7	44,3	44,8	44,7
Estonia	35,6	35,2	36,1	36,4	36,7	42,8	40,7	38,7	39,2	38,1
Ireland	35,1	35,6	37,4	36,9	35,4	34,5	34,9	34,0	34,5	35,9
Greece	38,1	39,0	39,2	40,7	40,7	38,3	40,4	42,2	44,4	45,8
Spain	38,8	39,7	40,7	41,1	36,9	35,1	36,7	36,2	37,2	37,8
France	49,6	50,6	50,6	49,9	49,9	49,2	49,5	50,7	51,8	52,8
Croatia	41,4	41,2	41,4	42,1	41,5	40,8	40,5	40,3	41,0	41,2
Italy	44,0	43,4	45,0	46,0	45,9	46,5	46,1	46,1	47,7	47,7
Cyprus	38,3	40,7	41,4	44,8	43,1	40,1	40,9	39,9	39,4	40,3
Latvia	34,8	35,4	37,7	35,3	34,7	34,5	35,3	34,9	35,1	35,1
Lithuania	32,5	33,5	33,7	34,3	34,6	35,5	35,0	33,2	32,7	32,2
Luxembourg	41,5	41,5	39,9	39,9	42,3	44,5	42,8	42,7	44,0	43,6
Hungary	42,6	42,2	42,7	45,6	45,5	46,9	45,6	54,3	46,6	47,7
Malta	39,0	40,7	40,4	39,5	38,7	38,8	37,7	38,6	39,8	40,9
Netherlands	44,3	44,5	46,1	45,4	46,7	45,8	46,3	45,6	46,4	47,3
Austria	49,2	48,2	47,5	47,6	48,3	48,5	48,3	48,3	49,1	49,7
Poland	37,2	39,4	40,2	40,3	39,5	37,2	37,5	38,4	38,3	37,5
Portugal	41,4	40,1	40,6	41,1	41,1	39,6	41,6	45,0	40,9	43,7
Romania	32,3	32,4	33,3	35,3	33,6	32,1	33,3	33,9	33,7	32,7
Slovenia	43,4	43,6	43,0	42,2	42,2	42,3	43,6	43,5	44,4	44,7
Slovakia	35,3	35,2	33,3	32,4	32,8	33,5	32,3	34,1	33,7	35,9
Finland	52,5	53,0	53,3	52,7	53,6	53,4	53,0	54,1	54,5	56,0
Sweden	54,6	55,8	54,9	54,5	53,9	54,0	52,3	51,5	51,2	51,6
United Kingdom	39,1	40,0	40,8	40,5	42,1	39,6	39,8	40,3	42,0	41,4
Iceland	44,0	47,1	48,0	47,7	44,1	41,0	41,5	41,8	43,6	44,2
Norway	56,2	56,8	58,3	57,6	58,6	56,7	56,3	57,5	57,2	55,5
Switzerland	33,8	34,1	33,8	33,1	34,0	34,9	34,1	34,4	33,8	:

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

This report on the size of public revenues is positive in that they allow the private sector to reach higher amounts of money, which theoretically can spur economic growth, and having some less good, by remaining less money for infrastructure and public investment and much of the public goods of social programs such as education, health, should be covered from income population of firms.

The solution of the problem and a possible path to economic recovery is finding that optimal level of taxation to which the public or private sector plus must be greater than minus private or public sector.

Prestigious economist Arthur Laffer explanation was remarkable not only that it provided a link between the rate of taxation and state revenues from tax collection, but put in front the two effects, economic and arithmetic.

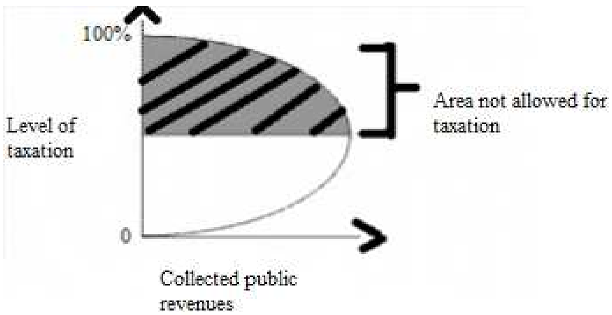
Laffer Curve shows that income grows faster in lower levels of taxation. As the rate increases, income increases at a decreasing rate until it reaches the maximum level of revenue collected by the state, the equilibrium point. Beyond this limit, any increase in the tax rate causes people to work less or find effective methods by which to evade the payment obligations to the state, reducing government revenue.

In other words, the revenue collected by the state in terms of a lower rate of income tax is the same as that obtained at a considerably higher tax rate.

Laffer study shows how governments can get the same income in two different ways: either by collecting high taxes from a smaller number of people, either by imposing a small tax to a number of people.

Figure 1

Laffer Curve (connection between the tax rate and taxable income)



Source: Adaptation of the Graphic provided by Garrett T and Leatherman J.C. An Introduction to State and Local Public Finance, Regional Research Institute, West Virginia,2000

Laffer's theory shows that at a tax rate of 0%, the government will collect no income tax, as would happen at a rate of 100% because no one would work without receiving any money. This theory confronts two effects, one economic and one arithmetic. Basically, after passing a certain level of endurance, increase tax rates will reduce revenues collected by the state. Lower tax rates have a positive effect on employment growth, employment and production, they are incentives for economic growth. Increasing tax rates can lead to economic downturn.

Fiscal policy objective should not be to maximize government revenue but sustainable growth while opening new business opportunities. Often economic recovery appears to enter into force as soon as major tax cuts. However reductions in taxation is not sufficient to reduce the budget deficit strengthened if nothing is done and the efficiency of public spending.

Currently more economically advanced countries provide a policy of high taxes resulting in a modest growth. Laffer theorists propose a reduction in tax rates to stimulate growth and increase household savings and businesses. In the United States, in 1990, George Bush administration increased taxes, then Clinton administration has raised further in 1993 and decreased again economies. The US economy had instead a very good monetary policy during this time managing to keep savings to acceptable levels while maintaining the company's capital accumulation stimulating technical progress, discoveries and developments. The solution to the problem of the federal budget should include also spending restrictions. Tax cuts are not sufficient to reduce the deficit. Raising taxes in order to balance the budget, to reduce the deficit proved on many occasions as the worst solution, this measure is pro-cyclical and leads to a increased economic recession. The discussion is still on, some left economists say the economy can not grow, and inflation can be kept at reduced rates while decreasing the high income taxes. However a fiscal relaxation, which is a stimulant of growth can be successful with implementing a mechanism to reduce tax evasion.

It is a philosophy of the right policies that says as the best way to help the poor is not to make the rich poorer, but to make the poor richer. All Americans as a whole have got richer as a result of policies offer pro-growth. Obama administration, pulled out the US of deep economic crisis and promoted a tax system where the rich should pay more, big companies, the pillars of economy are paying highest fees and provide the largest part of the American public revenues.

2. Income distribution in Romania

Overall, nominal convergence is closeness absolute values or nominal growth rates of indicators such as the budget deficit, public debt, inflation and exchange rate. In the strict sense, is closeness of the level of prices in different countries.

Real convergence means comparing living standards in a country with the others considered to be standard. The national economy must be rebuilt and strengthened in European spirit not through pension cuts, layoffs or salary but by cooptation of minds, of high moral economists who will focus the nation's creative effort to bring large projects capable of sustainable growth and Sustainable Development. A great thinker, Gandhi said: ,,There are enough resources for everyone's needs, but not for everyone's greed". A better allocation of resources, equitable implies a more efficient use of public spending relative to public needs. Step towards to market economy hasn't brought Romania, the growth of our dreams or a standard of living much better. Compared with the communist period, social polarization has increased dramatically, disparities are huge social and infrastructure deficits have widened.

The accumulation of wealth is back often looting public money. If 1989 was a net creditor country, now we can say that we ought sold debt at the end of May Romania is 78 billion euros according to National Bank of Romania and GDP is about 150 billion euros for the year end of 2014. Basically, Romania living on credit for 25 years, consumer credit, because the economy hasn't experienced a massive refurbishment and therefore relies mainly on "Services". Services occupy 52% of GDP, only 30% industry, 11% construction, agriculture 7%. The governors didn't pay for unsatisfactory results, it isn't a responsibility for public spending or for the massive debt for future generations.

In the developed countries the Government can increase deficits and state debt do only after Parliament's vote, here is at the pleasure of those who succeed in government.

We are in search of moral guidelines both in the economy and in society. The disappearance of the centralized system destroyed unfortunately a scale of values, based on professional criteria and often put in place imposture, mediocrity, theft.

To build a solid edifice must overcome the crisis of national dignity, this gray period in which we minimize the efforts, sacrifices and sufferings. Romanian people is a respectable Christian people that formed two thousand years ago in Dacia, from the union of Dacians and Romans. In just a few years we will celebrate one hundred years from the Great Union, the culmination of the centuries of Romanians dreams. A new spirit must be felt to be buried hatred and division to follow national interest, economic growth resulted in a higher standard of living and affirmation in European context of deeply and spiritual Romanian values. As we had political leaders and economists who have contributed to the creation of the modern Romanian state, so now the creative effort of this nation must concentrate for major infrastructure projects that will bring prosperity and value added. Instead brakers of monuments, the cutters of wages, social benefits should have moral people to build a state of prosperity as our aspirations and possibilities given by the education and training of the Romanians, the riches of the soil and subsoil, by location and varied landforms.

Membership in the European Union and NATO should we make our life much easier. In the table below we see how big is the national salary (GDP) per capita of Romania, a quarter of the EU average (Table 2).

Table 2

GDP per capita of Romania in Euro

GEO/TIME	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
European Union (28 countries)	22.100	22.400	23.100	23.800	23.700	22.600	23.000	23.300	23.200	23.200
Belgium	28.600	29.000	29.500	30.200	30.200	29.200	29.600	29.800	29.600	29.500
Bulgaria	2.800	3.000	3.200	3.400	3.700	3.500	3.500	3.700	3.700	3.800
Czech Republic	9.600	10.200	10.900	11.500	11.700	11.100	11.400	11.600	11.500	11.300
Denmark	37.500	38.300	39.400	39.900	39.300	36.900	37.300	37.500	37.200	37.200
Germany	26.800	27.000	28.000	29.000	29.300	27.900	29.100	30.000	30.200	30.200
Estonia	7.600	8.300	9.200	9.900	9.500	8.100	8.400	9.100	9.500	9.800
Ireland	37.800	39.200	40.300	41.000	39.300	36.400	35.900	36.500	36.400	36.200
Greece	17.100	17.400	18.300	18.900	18.800	18.200	17.400	16.200	15.100	:
Spain	20.600	21.000	21.500	21.800	21.700	20.700	20.600	20.600	20.200	20.100
France	27.000	27.300	27.800	28.200	28.100	27.000	27.400	27.800	27.600	27.600
Croatia	8.000	8.400	8.800	9.200	9.400	8.800	8.600	8.600	8.400	8.400
Italy	24.500	24.500	24.900	25.100	24.700	23.200	23.500	23.500	22.800	22.400
Cyprus	18.000	18.400	18.900	19.400	19.600	18.700	18.500	18.100	17.400	16.400
Latvia	5.200	5.800	6.500	7.200	7.000	5.900	5.900	6.400	6.800	7.100
Lithuania	5.800	6.300	6.900	7.700	8.000	6.900	7.100	7.700	8.100	8.500
Luxembourg	62.700	65.000	67.200	70.400	68.700	63.700	64.500	64.200	62.600	62.400
Hungary	8.400	8.800	9.200	9.200	9.300	8.700	8.800	8.900	8.800	9.000
Malta	11.900	12.200	12.500	12.900	13.400	12.900	13.400	13.500	13.500	13.800
Netherlands	30.900	31.500	32.500	33.700	34.200	32.700	33.100	33.200	32.700	32.300
Austria	29.300	29.800	30.800	31.800	32.100	30.800	31.300	32.100	32.200	32.200
Poland	6.200	6.400	6.800	7.300	7.600	7.800	8.000	8.300	8.500	8.700
Portugal	14.600	14.600	14.800	15.100	15.100	14.600	14.900	14.700	14.300	14.300
Romania	3.600	3.700	4.100	4.400	4.800	4.500	4.500	4.600	4.700	4.800
Slovenia	13.800	14.400	15.100	16.100	16.600	15.200	15.300	15.400	15.000	14.800
Slovakia	6.700	7.100	7.700	8.500	9.000	8.600	8.900	9.200	9.400	9.500
Finland	29.300	30.000	31.200	32.700	32.700	29.700	30.600	31.300	30.900	30.300
Sweden	32.200	33.000	34.300	35.100	34.700	32.600	34.500	35.200	35.300	35.600
United Kingdom	30.200	31.000	31.700	32.500	32.100	30.200	30.500	30.600	30.200	30.600
Iceland	41.800	44.300	45.100	46.700	46.100	43.100	41.500	42.500	42.800	43.800
Liechtenstein	:	:	:	:	:	:	:	:	:	:
Norway	51.900	52.900	53.700	54.600	53.900	52.400	52.000	52.000	52.800	52.500
Switzerland	40.400	41.300	42.500	43.800	44.200	42.800	44.200	44.500	44.600	45.000
FYR of Macedonia	2.300	2.400	2.500	2.600	2.800	2.700	2.800	2.900	:	:
Serbia	2.600	2.700	2.800	3.000	3.100	3.000	3.100	3.100	3.100	:
Turkey	5.300	5.700	6.000	6.300	6.200	5.800	6.300	:	:	:
United States	34.700	35.600	36.200	36.500	36.000	34.700	35.300	35.600	36.200	36.700
Japan	28.500	28.800	29.300	29.900	29.700	28.100	29.200	29.200	:	:

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

Regarding national salary (GDP) per capita of Romania at purchasing power parity it is half the EU average (Table 3).

Table 3

GDP per capita at purchasing power parity Romania

Country\Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU (28 countries)	100	100	100	100	100	100	100	100	100	100
Belgium	121	119	117	115	115	117	120	120	120	119
Bulgaria	34	36	37	40	43	44	43	44	45	45
Czech Republic	79	80	81	84	82	83	81	83	82	82
Denmark	125	123	124	122	123	123	126	126	125	124
Germany	116	116	115	116	116	115	119	122	123	122
Estonia	55	60	64	69	68	62	63	68	71	73
Ireland	143	145	146	147	132	128	129	130	130	130
Greece	95	91	93	91	93	94	87	77	74	73
Spain	100	101	103	103	102	101	98	95	94	94
France	110	110	108	107	106	108	108	108	107	107
Croatia	57	58	58	61	64	62	59	60	61	61
Italy	108	107	106	105	106	105	104	103	101	99
Cyprus	97	99	99	100	105	105	102	96	93	89
Latvia	48	51	55	60	60	53	53	57	60	64
Lithuania	50	53	56	61	63	57	60	65	69	73
Luxembourg	246	242	257	254	256	247	254	265	264	257
Hungary	62	62	62	61	63	64	65	65	65	66
Malta	81	81	79	78	81	84	86	84	84	86
Netherlands	133	133	135	136	139	137	135	135	132	131
Austria	128	125	125	123	124	126	126	128	129	128
Poland	49	50	50	53	55	59	62	64	66	67
Portugal	77	80	80	79	79	81	81	78	76	79
Romania	34	35	38	42	48	49	50	51	53	55
Slovenia	86	86	86	87	89	85	83	83	82	82
Slovakia	57	60	63	67	71	71	73	73	74	75
Finland	117	116	115	118	120	116	115	117	115	113
Sweden	129	124	125	128	127	123	126	127	126	127
United Kingdom	125	125	123	118	114	112	108	106	107	109
Iceland	132	130	123	123	125	123	117	115	116	119
Norway	163	175	182	179	189	174	177	182	190	186
Switzerland	134	132	135	139	144	145	147	159	162	163
Montenegro	:	30	35	39	42	41	40	41	39	40
FY R of Macedonia	27	30	31	31	33	35	35	34	34	36
Albania	:	22	23	24	26	29	28	28	28	28
Serbia	:	32	33	33	36	37	36	36	37	37
Turkey	38	41	43	44	45	45	48	51	52	53
Bosnia and Herzegovina	:	24	24	25	27	27	27	28	28	29

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

It is very difficult to talk of prices paid by Romanians in a correlation with the EU, especially in electricity, gas, heating when our revenues are so small compared to theirs, less than a quarter of the EU average in nominal terms.

Power consumption by the population continue to be subsidized because income Romanians are far from the European Union.

Real life differences are even greater than the GDP / capita shows, for us is much greater social polarization. Adjustments must be made carefully to avoid causing social explosions. In neighboring

Bulgaria, a government was changed overnight by people onto the streets because the government increased electricity prices.

It is good for economic reforms, budgetary changes or price sensitive social impact to be done as a result of the public consultation because an important role in publishing budget law is to make government responsible to the public for actions taken. The perfect moment for a viable reform must be a boom period because this reform process creates reserve money for times of crisis and requires a logical distribution of funds in emergency situations, such social costs would be more tolerable and the freedom of choice is not altered as is happening in the time of a crisis.

The Italian economist Corrado Gini coefficient invented in 1912, the Gini coefficient which measures inequality of income distribution, the share of national wealth held by each social category. Its value ranges from 0 to 1. The ratio is even lower as the differences in the distribution are smaller. World Gini values lie between 0.24 (24%) in Sweden and 0,707 (70.7%) in Namibia. In the table below is attached Gini coefficient for Romania and EU countries.

In 1989, the Gini coefficient for Romania was 0.23, which means that, in terms of equity income distribution we were close to the level that is now Sweden. In 2013, the coefficient reached 0.34, Romania with a high level in terms of inequality of income distribution. Basically costs are unfairly distributed exiting recession and social explosion hazard is greater (Table 4).

Table 4

Gini coefficient on the distribution of disposable income

Country\Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU (28)	:	:	:	:	:	:	30,5	30,8	30,4	30,5
EU (27)	:	30,6	30,3	30,6	30,9	30,5	30,5	30,8	30,4	30,5
EU (15)	30	29,9	29,6	30,3	30,8	30,5	30,6	30,9	30,5	30,4
Belgium	26,1	28	27,8	26,3	27,5	26,4	26,6	26,3	26,5	25,9
Bulgaria	26	25	31,2	35,3	35,9	33,4	33,2	35	33,6	35,4
Czech Republic	:	26	25,3	25,3	24,7	25,1	24,9	25,2	24,9	24,6
Denmark	23,9	23,9	23,7	25,2	25,1	26,9	26,9	27,8	28,1	27,5
Germany	:	26,1	26,8	30,4	30,2	29,1	29,3	29	28,3	29,7
Estonia	37,4	34,1	33,1	33,4	30,9	31,4	31,3	31,9	32,5	32,9
Ireland	31,5	31,9	31,9	31,3	29,9	28,8	30,7	29,8	29,9	:
Greece	33	33,2	34,3	34,3	33,4	33,1	32,9	33,5	34,3	34,4
Spain	31	32,2	31,9	31,9	31,9	33	34,4	34,5	35	33,7
France	28,2	27,7	27,3	26,6	29,8	29,9	29,8	30,8	30,5	30,1
Croatia	30	30	28	29	28	27	31,6	31,2	30,9	30,9
Italy	33,2	32,8	32,1	32,2	31	31,5	31,2	31,9	31,9	32,5
Cyprus	:	28,7	28,8	29,8	29	29,5	30,1	29,2	31	32,4
Latvia	:	36,2	38,9	35,4	37,5	37,5	35,9	35,1	35,7	35,2
Lithuania	:	36,3	35	33,8	34	35,9	37	33	32	34,6
Luxembourg	26,5	26,5	27,8	27,4	27,7	29,2	27,9	27,2	28	30,4
Hungary	:	27,6	33,3	25,6	25,2	24,7	24,1	26,8	26,9	28
Malta	:	27	27,1	26,3	28,1	27,4	28,6	27,2	27,1	27,9
Netherlands	:	26,9	26,4	27,6	27,6	27,2	25,5	25,8	25,4	25,1
Austria	25,8	26,3	25,3	26,2	27,7	27,5	28,3	27,4	27,6	27
Poland	:	35,6	33,3	32,2	32	31,4	31,1	31,1	30,9	30,7
Portugal	37,8	38,1	37,7	36,8	35,8	35,4	33,7	34,2	34,5	34,2
Romania	31	31	33	37,8	36	34,9	33,3	33,2	33,2	34
Slovenia	:	23,8	23,7	23,2	23,4	22,7	23,8	23,8	23,7	24,4
Slovakia	:	26,2	28,1	24,5	23,7	24,8	25,9	25,7	25,3	24,2
Finland	25,5	26	25,9	26,2	26,3	25,9	25,4	25,8	25,9	25,4
Sweden	23	23,4	24	23,4	24	24,8	24,1	24,4	24,8	24,9
United Kingdom	:	34,6	32,5	32,6	33,9	32,4	32,9	33	31,3	30,2
Iceland	24,1	25,1	26,3	28	27,3	29,6	25,7	23,6	24	24
Norway	25,2	28,2	29,2	23,7	25,1	24,1	23,6	22,9	22,5	22,7
Switzerland	:	:	:	30,4	31,1	30,7	29,6	29,7	28,8	28,5

Source: Eurostat Database Interactive

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