

THE ZOO-ECONOMIC CHALLENGES OF FISCAL DUMPING

PROVOCĂRILE ZOO-ECONOMICE ALE DUMPINGULUI FISCAL

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In United Europe, the economic policy proves common goals of prosperity and development, still each country is administrating its own policy mix in order to reshape the fiscal pressure and to safeguard the economic body of the society. The fiscal dumping is a feature of the market competition concerning the non-co-operating actions taken among the economic agents targeted to increase the fiscal appealing of their (home-land) territory by instrument of apparently favoring fiscal policies. In Romania this disguised tool of the policy promotion is mixed with an explicit expectation of rural and agriculture subvention, abundant in SMEs and rural fields, in line with the local needs of increasing the foreign investments and consolidating growth

Keywords: fiscal dumping, policy promotion, growth

Introduction

In order to understand the global context and the general frame of the environment where national economies evolve, an attentive analysis of the measurable macroeconomic phenomena, in particular for European Union and our country situation is welcome.

Since 2000, the economy has grown steadily at around 6-8%; in 2008, Romania registered an economic growth of 7, 8%, and the economic growth factors include: private consumption, consumer credit, corporate investment and exports.

The nominal gross domestic product, G.D.P, was in 2008 of 200 billion USD, while GDP/capita was in 2008 of 12,282 USD. Unemployment rate decreased in 2007 at 3,6%, its lowest level from 1990, and slowly raised in 2008.

The account deficits were of around 2% of GDP, in decline as demand for Romanian products in the European Union increases, for 2007 and first part of 2008

Materials and Methods

Methods of zoo-economics science are based on the critical observations that competitive market forces alone are not able to assure convergence with the developed countries. The observations are grounded on the results of the

computation of the marginal rate of return to capital (which contradict the neoclassical model hypotheses), as well as on the real process of polarization of the economic activities, taking place worldwide and in accordance with the law of competition.

The evaluation in zoo-economy is based on index, as quantitative tools able to back-ground the strategic plans of long lasting development

Results and Discussion

Romania is connected to the European Strategy of Development and since its membership, 2007, there have been made more systemic efforts to coordinate the national economic activities and structures with the EU levels.

Last year, 2008 ended in a 5.2 percent deficit: the previous government left behind a supplementary public debt of 6 billion euro in 2008.

Inflation was under control before our EU membership and after: its annual index in the economy was variable and during the last five years (2003-2007) it had seen a low of 2.3% and high of 6.3%, and after the EU accession the inflation control was even tighter.

Financial and technical assistance continued to flow in from the U.S., European Union, other industrial nations, and international financial institutions facilitating Romania's reintegration into the world economy. The International Monetary Fund (IMF), World Bank (IBRD), the European Bank for Reconstruction and Development (EBRD), and the U.S. Agency for International Development (USAID) all had programs and resident representatives in Romania.

The anti-crisis plan of the Government has been generated by two realities - one of the foreign economic crisis and a reality of Romania's economic situation at the end of 2008. The crisis is a global reality that has not started in Europe: it originates in Asia, even earlier than 2004, but obviously, the structural need for change in the international flow network has had a heavy role in spreading its effects.

Romania is an European agricultural producer.

Agriculture, the prime sector of economy is intensive, highly mechanized, and somehow efficient by European standards, producing about 60% of food needs with only 5% of the labor force. Still it contributes around 2% of GDP, and this small share proves that the great potential our country owes is far from being used enough.

Romania is the world's eleventh-largest agricultural producer and the sixth-largest agricultural exporter. Romania is a major producer of grain, sugar, meat and milk products. However, the destination of 75% of its exports is towards the other EU member states. Wheat, beef, pork, poultry, and dairy products are the principal exports. U.S. agricultural exports to Romania, totaling some US\$200 million annually, consist primarily of soybeans and products, feeds and fodders, seafood, and consumer oriented products, especially snack foods and nuts.

Romania exports to the United States are mainly cheese, processed products and wine. They amount to more than US\$150 million annually.

During the present 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.

This instrument is founding, among other things, the priorities and the strategic negotiated objectives with the European Commission, in the purpose of financing them from the Structural and Cohesion Funds during 2007-2013.

“The National Development Plan” grounds “The National Strategic Framework 2007-2013”, which trace some specific tasks for the implementation, because the rural development is confronted with a series of local Romanian problems connected to: the existence of non-profitable small farms, a lower productivity and quality of products, compared to the average of the European Union, the deficit between the import and the export of farm products, because the Romanian exports owe less added value, the crisis of an organized commercial (supply) chain allowing a huge discrepancy between the small producer price and the high selling price, the rural precarious infrastructure, risks exposure of rural activities to natural disasters, such as earthquakes or floods.

The dynamics of the rural sector is grounded on the results of socio-economic innovation: the welfare economy is supported by the high productivity of all sectors and activities. In the middle of great economic changes, imposed by the crisis and the re-structuring of the branches of activities, the level of productivity, of incomes and the innovative factors are closely connected.

Not only Romania but the UE are making financial efforts to support economic reconstruction.

The European intervention in economy relies on its budget: the EU budget recorded a slight increase of 2.5% on 2008, and this corresponds to 1.03% of the EU Gross National Income (GNI).

The recent surge in food prices has hit the most vulnerable in the world worst and the EU is stepping up its support by providing a “Food Facility package” of €1 billion over 2008, 2009, 2010. The largest share from the budget, up to €568 million, will come from the 2009 EU budget. In 2009, the biggest share of the EU budget – 45% or €60 billion - will go to research, innovation, employment and regional development programs to help Europe respond to the current economic crisis.

An 11% increase in research and a 22% increase in the EU's innovation program will help boost competitiveness and a low-carbon economy.

Funds for agriculture remain stable, taking over 40% of EU funding, while spending on the environment and rural development will rise by 2.9%. Europe's external policies will also see spending grow in 2009, including €0.6 billion for the €1 billion food facility to help developing countries respond to rising food prices.

Financial help will prepare the European Union to respond to the current economic crisis. Getting Europe on the road to economic recovery, the 2009 budget

needs to be flexible. In order to adapt to unforeseen events and to make sure that budgeted appropriations correspond to the actual level of implementation of programs on the ground, the Commission may propose the adoption of "amending budgets" throughout the year.

Spending on agriculture will remain stable in 2009, absorbing more than €40 billion. The shift within this policy area towards development in rural areas also means more spending on the environment the fight against climate change.

Over 40% of rural development funding (€13.6 billion) will be for environmental goals. On top of that, the LIFE+ environmental protection program will grow by 19%, reaching €317 million.

The 22% increase in the EU's innovation program will also help EU efforts to move to a low-carbon economy by financing sustainable technologies.

In other words, in Romania the financed trend should remain the subvention of environment and rural development towards a low-carbon activity, starting from 2009.

In order to achieve the goal for which the financial support is dedicated, the macroeconomic frame should remain as stable as possible.

In this respect, national authorities decided for the next period the fiscal stability, non increasing the basic taxes per incomes. The fiscal system of economy and its sectors was a subject to polemics from the beginning of economics as a science: Adam Smith was a famous doctrinaire who claimed that taxation is an attribute of the state. Adam Smith, in his "An Inquiry into the Nature and Causes of the Wealth of Nations", was noticing that "In every state dependants ought to contribute to the state expenses, so it comports with their facilities in a best way, meaning proportionally to their income, that they use under the protection of the state".

As a basic doctrinaire assumption, beginning with Adam Smith, flat tax is recommend to be an appropriate and less harmful way of taxation, especially for developing countries.

For Romania, this recommendation is still valid, during the convergence period time-frame.

Taxation, whose reason is to infringe natural principle of flat taxation and make on part of taxpayers advantageous to the exclusion of the other part of taxpayers, can't do without big tax frauds, without lost on economic growth, without huge bureaucracy and without efforts of injured groups to bring into the tax system measures in form of another allowances, another exceptions, deductions and another special tax rates.

The legalization of the flat tax-system should increase justice, should reduce time and administrative costs of taxation and it should accelerate economic growth by collecting more budgetary incomes.

The flat tax theoretical explanation is sharp, simple and classic.

Such a taxation system introduces the flat tax for all incomes of natural persons and profit of corporate bodies is taxed with unified rate without any other

deductions, exceptions and allowances. According to flat tax theory, there are three parameters that we have to survey: the tax base, the exemption limit, the unified tax rate.

The flat tax system means that all incomes are taxed with the same tax rate, this including unified exemption limit for every taxpayer. The same level of income is taxed equally in this system. Flat tax is not influenced by the type of activity taxpayer carries out. Because the flat tax does not include many definitions of different incomes – all incomes are considered alike.

The flat tax maintains personal deductions by natural persons, annual non-taxable amount for each taxpayer and for person dependent on taxpayers. Among general characteristics of flat tax we notice:

- The reduction of barriers which are laid on taxpayers labor and business effort,
- The effort of long term insurance of resources needed for collective redistribution,
- Tax serves to finance public needs and tax system should not be instrument of social policy at the same time.

The effective tax system should be collecting money avoiding distinct influence on decision process of individuals on how much would they work, savings and their investments flow. Flat tax encourages the idea that the best way how to achieve distortion cut-down is low tax imposition on wide-range of economical activities instead of reduction of tax rate base by deductions and exceptions and following steep progressive tax rates.

Taxation based on the unique tax rate for all types of economical subjects makes the tax system distinctively more transparent. It deals with everyone in the same manner and thus it lowers the number of tax evasions, because avoiding tax liability and connected expenses on tax clerks and earnings transfers towards the countries with lower tax rates is not feasible anymore to the tax payers.

Assets thus saved on taxes then support long-run economical growth and contribute to the standard of living improvement.

There is an observed correlation between the implementation of the flat tax system and the more rapid growth of the GDP, but there is only an assumed fact, that the flat tax system releases funds for the economic growth of the country where such *savings* occur.

On the other hand, low taxation appeal to business and companies do funds transfers in order to skip taxation, for the self-feeding budgetary incomes.

The origin of the idea of income taxation (progressive system) is war-connected, but still lasting in the Western Europe. In most of Western Europe countries (Germany, Netherlands, Sweden, Canada, Australia, Japan, New Zealand, etc.) the tax was implemented during 19th century. It had a form of flat tax. In other cases it was progressive tax, but its rates were according to latest measurements, extremely low. For instance Austrian-Hungarian system contained unbelievable 65 tax zones, but the tax rates were ranged from 0.58 % (for incomes

between 1200 and 1250 forint per year) to 3.88 % (for incomes between 92 000 and 96 000 forint per year).

The guidelines for the flat tax system are:

- All incomes should be taxed just once;
- Unified tax rate according to which all kinds of incomes are taxed, should be as low as possible in accordance with budget necessary to finance public expenses;
- Exercitation of flat tax rate over the limit of determined minimal income, so called non-taxable minimum level. Its level cannot be too high, because it wouldn't narrow the tax base and remaining tax payers wouldn't have to pay high tax rate.
- Removal of exceptions and various unjustified allowances, which in the end moderate tax progression: the system should be simple.
- The flat tax thanks to its structure and simplicity should lower the companies' expenses.

Romania's flat tax system is one of the most liberal fiscal policies in Europe and was introduced in order to boost spending power and salaries, encourage foreign investment and greater consumer spending.

Conclusions

The flat tax fiscal system is based on principles of *the supply side economics*, explained long ago, by Colin Clark, who argued in the latest 40's about a taxation higher than 25% out of the GDP, which could bring certain inflation, discouraging work, and decrease the merchants offer. But at those times, Germany, for instance, was in the top of the industrial countries- having a 37% from GDP taxation, while its economy was not showing apparent distortions.

Later, those thesis were re-taken by Arthur Laffer, Gilder, and others, in connection with *A Keynesian Counter-Revolution (anti-demand policy)*.

In the Supply Side Economics, the decisive role is played by the increasing motivation of the individuals, small business, in order to push a higher taxation effect at the highest level of the macroeconomic budget.

Low tax rates have a favorable effect for development due to higher available financial resources, remained inside the business.

Romania's decision to adopt a low flat tax reflects the fiscal competition from other Central and Eastern European countries that have adopted the flat tax: Estonia, Latvia, Russia, Serbia, Ukraine, Slovakia, Georgia, Lithuania

Under the danger of crisis effects, our country has to adapt to business environment, and to commit its-self to even higher efforts in order to diminish zoo-economical (live-stock) discrepancies compared to other European national productions, and to fight back the recession from our economy.

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