

# Maintaining the Unique Taxation Quota – Condition for the Convergence of Romanian Economy with The European Economic Space

Ioan Done

Universitatea Petrol-Gaze din Ploiești, Bd. București 39, Ploiești  
e-mail: ioan\_done@yahoo.com

## Abstract

*The maintenance of the same unique taxation quota considered by specialists a condition of Romania's economic convergence to the EUM, is imposed by several factors. Firstly, the tax shall be associated with the idea that for a tax payer it represents "a compulsory tax bite given by the state and even if it doesn't bring a direct and immediate equivalent to the tax payer, it must be paid".*

*Secondly, the income taxes must be considered not only sources of the budget but also modern economic arms for motivating, attracting, consuming and using the production factors.*

*Thirdly, we must change the idea according to which the use of taxes is recommended only during the crises periods of the economic system. Practice has proved that the taxes represent useful economic arms in all periods of the economic system.*

**Key-words:** *equivalence, equity, convergence, unique taxation quota*

*Motto: "When an individual spends his own money in order to buy himself something, he pays very much attention to the amount he spends and the goods he acquires. When an individual spends his money for buying something for somebody else, he pays very much attention to the amount, but less to what he buys. When an individual spends somebody else's money in order to buy something for himself, he pays very much attention to what he acquires, but not to the amount he spends. And when somebody spends somebody else's money for someone else, he is not interested either in how much he spends or in what he acquires. This is the way in which the Government uses to acquire things." (Milton Friedman)*

The rapid and efficient integration of the national economy in the EUM requires, at least for the pre-adhesion period, the direct involvement of the power structures, and mainly of the legislative and executive ones. Concretely, there is a need for a strategy aimed at ensuring the *convergence* of our national economy to the European space exigencies.

Lately the field literature has focused on the convergence between the recently EU adhering economies or those in the pre-adhesion phase. The convergence indicators proposed by DEKA Bank and Deutsche Bank have a large audience in this field.

Without analyzing the hierarchical comparison between the two indicators, the option for the national economy leads to the one highlighted by the Deutsche Bank, not because Romania has levels that are closer to the nominated countries (although patriotism has not disappeared once we joined the EU), but because of the situation at the same level of both policies – monetary and fiscal. In fact, either in theory or in practice it is very difficult to build specific strategies without involving both of them.

The intergrowth being so obvious, so that the Economic and Monetary Union (UEM) established for the countries which are to become members of the EU by the Maastricht Treaty (1993), the following *criteria* were established<sup>1</sup>:

1. the inflation rate, at most 1.5 percentage point over the average of the first three member states having the lowest inflation;
2. budget deficit not exceeding 3% from the gross domestic product (GDP);
3. the nominal rate on long term shall not exceed 2% towards the interest rate average during the first three member states having the best performances in price stabilization domain;
4. the public share in the gross domestic product (GDP) shall not exceed 60%;
5. the fluctuation margin shall correspond to the margins established by the European Monetary System within the limit of  $\pm 15\%$  for the last two examination precursory years.

The economic union can be complete only if it becomes an economic and monetary union. For Romania this represents the integration fundamental objective, which supposes that starting from 2007 up to 2010-2012 Romania shall accomplish all Maastricht criteria and then between 2010-2014 enter the euro area.

The simple presentation of the content and the way of calculating the indicators imposed by the Maastricht Treaty situates the monetary and fiscal policies in the center.

As there all policies are involved in the goods production, it means that fiscal policy must be part of the real convergence, especially of the increase in the total gross domestic product (GDP) and in the GDP per inhabitant. In this context we should change the mentality regarding the nature, the place and the role of taxes within a functional market economy.

Firstly, as mentioned in a preceding article<sup>2</sup> the tax must be associated with the idea that if for the tax payer it represents “a compulsory and free tax bite given by the state, the latter, even if it doesn’t carry out to the payer the direct and immediate equivalent, is considered receipted. The one realizing incomes uses directly and indirectly parts of the wealth for which he doesn’t pay anything, either directly or indirectly.

As the very well known Alvin Toffler underlined, “they were living at the same time in a fascinating and unexplored parallel economy within which we could accomplish several vital needs without paying. The combination between these two elements – the economy based on money and the non money one – form what we call the wealth system. It is very clear that, as industrialism generally created an increasing wealth and surpluses per inhabitant larger than the rural economies have ever managed to accomplish, the incomplete third wave system which is to be consolidated promises that the wealth generated by all preceding systems shall appear insignificant towards the one accomplished by it. It is not only the money wealth that could increase but also human wealth – the wealth not expressed in money that we create for us and our beloved.”<sup>3</sup>

---

<sup>1</sup> \*\*\*, România în Uniunea Europeană. Potențialul de convergență. Supliment al Revistei de Economie teoretică și aplicată, București, iunie 2006

<sup>2</sup> Done, I. - *Production fund and income taxation*, 17.06.2002

<sup>3</sup> Toffler, A., Toffler, H. - *Avuția în mișcare*, Editura Antet, București, 2006, pag. 8, pag. 28

Secondly, the income taxes must be considered not only budget sources, but also modern economic arms in order to attract the consumption and the use of production factors. The passage from the production factors taxation quantitatively considered (number of hectares, number of persons, etc.) to the income taxation, consumption taxation etc. was not accidentally made.

Thirdly, the idea towards which the use of taxes is recommended in the economic cycle crises periods must be corrected. Practice has proved that taxes represent economic arms used in all economic system phases. Furthermore, we may say that the taxation area has certain asymmetries.

Thereby, during the economic increase periods, the taxes level must be diminished, the unique quotas being in this context an eloquent example.

Fourthly, the taxes system constitutes an important economic arm only if the other systems are placed in the optimal area. In the income tax context, the Romanian fiscal policy cannot be associated with the most accentuated polarization of wealth.

The latter has as main cause the corruption and the relatively free alienation of a significant part of the old socialist property.

As it results from chart no.3, the progressive taxation is anti-economic as it breaches the exchange on the basis of equivalence, respectively, insomuch an employee increases the production result and the individual net salary diminishes.

In exchange, it represents amelioration in the sense that after taxation, the individual net salary remains the same, regardless of the production volume evolution.

Introducing the unique quota shall determine the consolidation of the middle class which has a specific way of living, culture level and which refer mainly to: incomes, dwellings, cars, culture-related expenses, the way of spending the spare time, vacation destination, etc.

With reference to the countries which were CAER members and which adhered to the European Union in 2004 for ideological reasons very easy to understand, the official statistics kept on avoiding this phenomenon, the occidental sociologists assessed the emergent middle class in 30% from the population of Czechoslovakia, 20.25% in Hungary and 15% in Poland (the figures make reference to the year 1989).

Towards the tendencies of the central-European countries of introducing market mechanisms and even private economy forms, Nicolae Ceausescu applied a total and exigent etatism which was applied even to the state control of all economic and social processes, including the rural production adjustment by means of the police. As a result, the well-off social class starting with the party nomenclature, represented only 4-5% of the active population.

The middle class formation and development necessity is not only a politic necessity but an economic one, as its low level constitutes a serious restriction regarding the European cohesion and structural funds attraction and use.

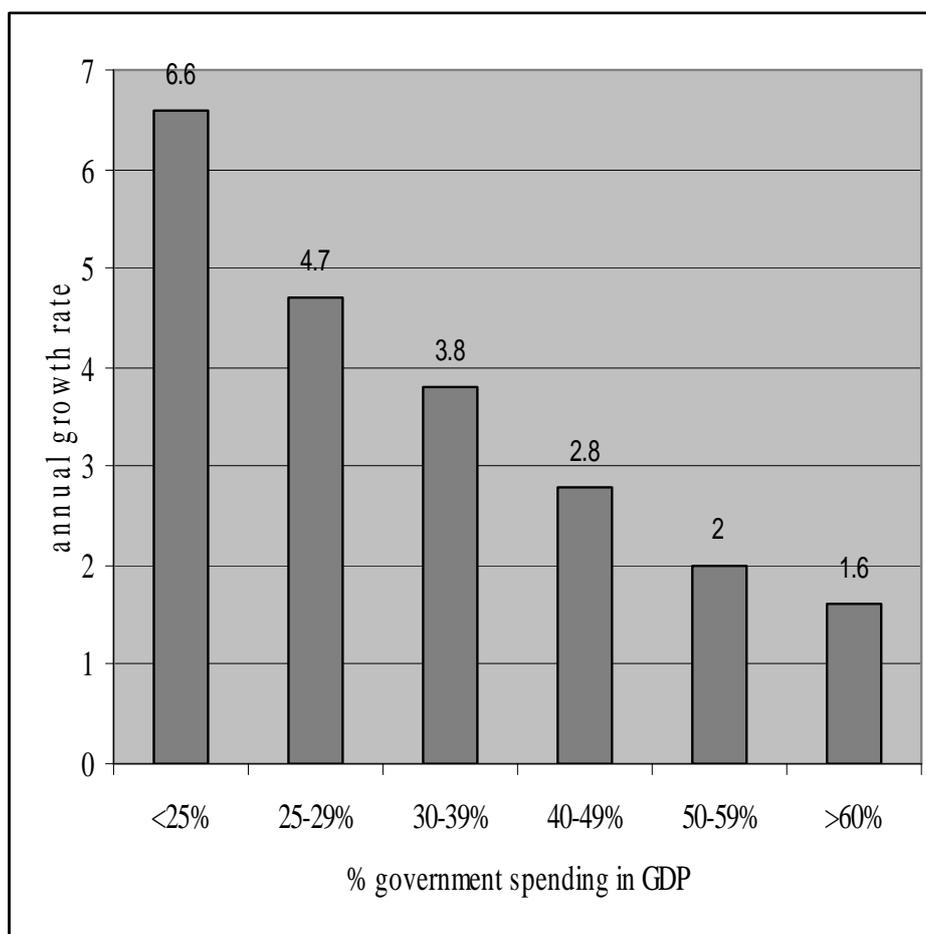
A distinguished local consultant for the World Bank underlined: “the situation is as much absurd as in our country the European Union programs are slowly working or not working at all, and the main reason for the failure is not the money but the public institutions’ ability to generate and administrate projects.

As our complete report shows, we have a management and organization deficit, not a money-related one. In other words, although it may sound paradoxical, the Romanian public sector eligible for the EU funds has a larger amount of money than it may efficiently use, even on the national co finance part.

The salaries taxation with the unique quota is a way of motivation for performances, respectively for the employees' selection and orientation after economic criteria. In case of the unique quota, the difference between the incomes shall be made terms of the labor results, the performant employees shall not be preoccupied with finding different limits of the law in order to receive the incomes they deserve.

Applying the reduced unique taxation quota for salaries and profit – income class strictly linked to the volume, structure and efficiency of the physical production – does not exclude the progressive taxation, when their use tends to be “consummated”, such as the taxation of villas and apartments with a surface larger than the minimum decent, of cars with a length in service, pollution degree and power over certain minimum limits, etc.

The evolution of incomes and expenses to the state compared with the evolution of the taxation quotas and GDP, total and for each individual, has certain asymmetries.



**Fig. 1.** Evolution of the governmental expenses and annual economic increase rate within the states members of OECD during 1960-1996

In case the governmental income rate and expenses is accompanied by the diminution of the annual economic increase rate, we consider that Romania shall not force the taxation policy in order to align to the present levels of public incomes and expenses rates within the EU.

We shall not remain at the level of 25% established by J.M. Keynes during the inter-war period and probably not even to the 30% although the latter level is appreciated as being: “the

appropriate one for the European central Bank, called “The public sector efficiency, evidence from new EU member states and emerging markets”.

There is a link between the restraint public expenses level (the authors recommend 30% of GDP - our note) and the accelerated economic growth, and GDP per individual.

In the authors’ opinion, the optimal public expenses shall be more restraint within the states members of the EU and within the states from the emergent markets.” (Săptămâna Financiară, 25.09.2006)

The external pressures and unfortunately also the external ones, in order to increase the governmental incomes and expenses in Romanian GDP (gross domestic product) enter in direct conflict with the idea of eliminating the owner statute from the economy, encouraging the private sector, corruption diminution, selecting the economic agents’ terms of the competitiveness, attracting foreign investors and last but not least encouraging the national elites.

The collaboration of the fiscal policy with the economic policy and the money policy *does not exclude the fiscal policy administration improvement*, in the sense of unpaid taxes and rates and subventions elimination, especially of the ones related to the exploitation losses.

The economic agents encountered in this situation must be eliminated as they do not have any chance of meeting fiscal obligations in time.

Convinced that during 2007-2014, on the background of the fiscal policy convergence in the excise duties, VTA, custom duties and social contributions domain from Romania with the EU, shall not exist reasons for giving up to the 16% unique quota for the personal incomes and profit, we are aware of the fact that there is room for the compulsory social contribution diminution in favor of the voluntary ones, the social contributions diminution and giving up to the dividends and last but not least the unique quota taxation by means of the unique quota fragmentation in restraint but homogeneous segments.

The supporters of the idea that observing the devoted and verified principles as performance source is imperative, we appreciate that the land-tax must be re-set in terms of labor and profits tax.

The implications of applying the same reduced unique quota for the personal incomes and profit cannot avoid the incomes polarization, which in the case of applying the same unique taxation quota for personal incomes and profit shall favor the persons accomplishing larger incomes.

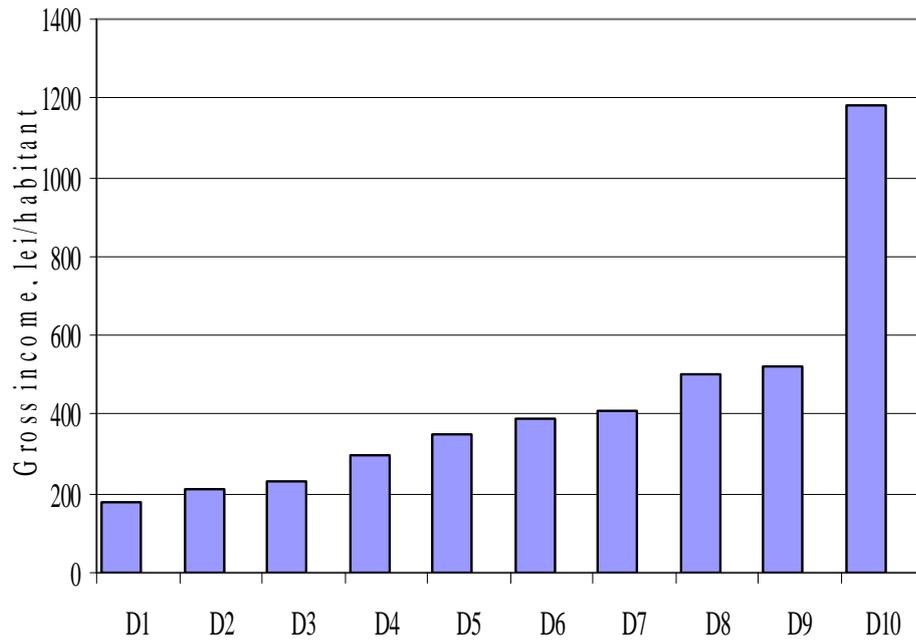
Vilfredo F. Pareti established that only 20% of the population detains 80% of the realized incomes.

If these reports can be associated to a certain stage of economic development which did not have in view an equitable distribution of incomes (the period up to the end of the XIX the century), at the mi of XX<sup>th</sup> and after, new voices appeared such as dr. Joseph Juran who found again the 20:80 report.

Without giving more details, it seems that we can find in nature Pareto’s proportions, for example the oxygen-nitrogen report in case of air, dry and water at the level of earth or the solid and liquid report in case of human organism.

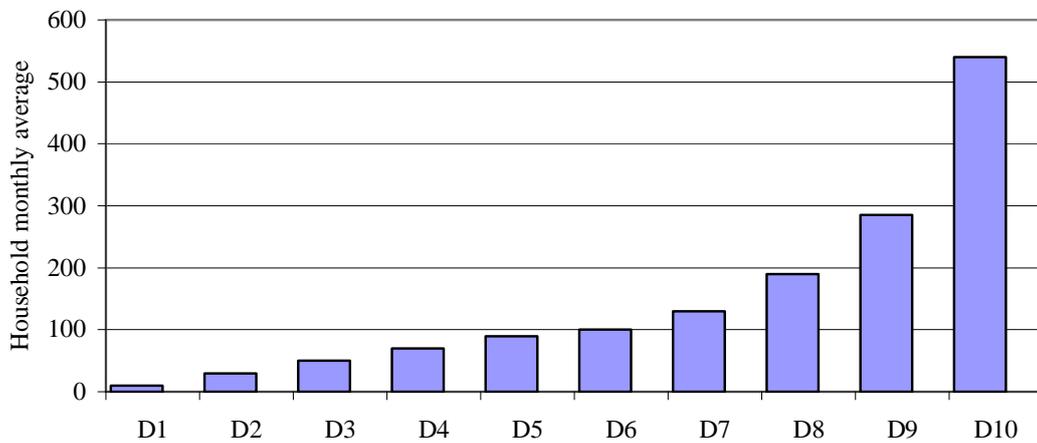
In the context of the above presented, it is said that the incomes unique taxation quota for private individuals and the companies incomes – application of the 16% unitary quota – represents the maximum level up to which it can be educed, as Romania achieved the 20:80 report.

To exemplify, we present the following charts:



**Fig. 2.** Farms distribution terms of the gross income during 2005 within Romania

Source: Statistics National Institute



**Fig. 3.** Household redistribution in Romania

Source: Statistics National Institute

Romania has developed direct taxation because of its freedom of choice. This fact is possible because there are many rules and directives in the field of indirect taxation and the Member States of European Union are obliged to apply this kind of taxes. In table 1 we can see the percentage of indirect taxes in GDP in the Member States of European Union:

**Table 1.** The percentage of indirect tax in GDP (1995-2004)

Country	1995	1998	2001	2004	Average 1995-2004
Belgium	10,7	11,0	10,9	11,1	11,0
Czech Republic	11,4	10,4	10,4	11,4	10,9
Denmark	15,4	16,3	15,7	15,8	15,8
Germany	10,3	10,1	10,5	10,1	10,3
Estonia	12,3	11,7	12,1	12,3	12,2
Greece	13,2	12,9	13,3	12,3	13,0
Spain	8,9	9,6	9,5	9,6	9,5
France	12,1	12,1	11,3	11,3	11,8
Ireland	13,0	12,3	10,9	11,2	11,9
Italy	10,3	10,6	10,3	10,0	10,3
Cyprus	10,1	9,0	11,6	14,9	11,0
Latvia	12,1	13,2	10,2	10,9	11,4
Lithuania	11,8	13,1	11,5	10,6	11,9
Luxembourg	11,5	10,9	10,8	12,4	11,3
Hungary	17,5	15,3	14,9	15,4	15,6
Malta	10,1	9,4	11,3	13,0	10,9
Austria	11,6	12,4	12,3	12,2	12,2
Poland	12,7	12,0	11,1	11,8	12,1
Portugal	11,8	11,8	11,4	-	11,7
Slovenia	15,5	14,8	13,7	14,0	14,5
Slovakia	-	-	-	-	11,6
Finland	13,3	14,1	13,4	13,9	13,8
Sweden	13,4	13,1	12,7	12,8	12,9
United Kingdom	12,1	12,2	11,7	11,6	11,9

Source: European Commission (2006), Economic aspects of taxation

Direct taxes are not so reglemented at the EU level because there are four fundamental rules of freedom which have to be guaranteed. So, any fiscal national law that diminishes these rules is immediately canceled. The EU member states have to respect the EU Treaty (table 2).

**Table 2.** Taxes rates in EU-15 (1995-2005)

	Capital tax					Labour force tax				
	199	2001	2002	2004	2005	1995	2001	2002	2004	2005
EU 15	24,	29,4	28,4	-	-	37,3	36,8	36,3	25-50	25-50
Belgium	23,	28,8	30,1	33	35	44,1	43,9	43,5	25-50	25-50
Denmark	26,	30,8	28,8	30	30	40,7	41,5	39,9	38-59	18-26,5
Germany	21,	22,4	20,9	27,9	25	39,5	39,9	39,9	19,9-48,5	19,9-42
Greece	12	18,6	18,1	35	35	34,1	37,6	37,8	5-40	5-40
Spain	20,	27,5	29,6	35	35	28,9	29,6	30	18-48	15-45
France	31	38,2	36,6	34,3	35,4	42,2	42,7	41,8	10-49,6	10-48
Ireland	21,	31,4	32	12,5	12,5	29,8	27,5	25,9	20-42	20-42
Italy	26,	28,1	28,1	34	33	37,8	41,5	41,1	23-43	23-43
Luxembourg	24,	31,1	32	30,4	30	29,5	29,2	28	6-38	6-38
Netherland	23	30,1	29,6	34,5	34,5	35,1	31,8	31,9	0-52	0-52
Austria	23,	30,1	28,5	34	25	38,7	40	39,2	21-50	21-50
Portugal	20,	31,7	-	30	27,5	31	33,3	33,7	15-40	15-40
Finland	27,	27,8	30,3	29	29	43,9	44,4	43,9	12-35	10,5-33,5
Sweden	18	32,3	31,5	28	28	48,4	47,9	46,6	20-60	20-60
United Kingdom	27,	34,1	30,8	30	30	25,7	25,4	24,6	0-40	0-40

Source: Documents of the EU and [www.worldwide.tax.com](http://www.worldwide.tax.com)

Romania has reduced the taxation quotas of citizens' incomes and firms' benefits in order to change its negative image in the field of business environment.

**Table 3.** Hierarchy of some national economies depending on the fiscal indicators and business environment

Country	The rank of employment and unemployment	The rank of desire to pay taxes	Number of compulsory taxes for firms	Percentage of taxes in global income %	The rank of ability to do business
U.S.A.	6	30	9	21,5	3
Switzerland	11	13	25	22,0	17
Bulgaria	90	78	27	38,6	62
Latvia	103	83	39	38,7	26
Slovakia	74	69	31	39,5	37
Estonia	111	18	11	39,5	16
Czech Republic	60	70	14	40,1	41
Russia	57	52	27	40,8	79
Lithuania	93	31	13	41,6	15
France	142	35	29	42,8	44
New Zealand	4	16	8	44,2	1
Ireland	59	21	8	45,3	11
Spain	150	25	7	48,4	30
Germany	131	54	32	50,3	19
Romania	149	116	62	51,1	78
Sweden	86	38	5	52,6	14
United Kingdom	15	81	8	52,9	9
Poland	64	106	43	55,6	54
Hungary	85	98	24	56,8	52

Source: Doing Business în 2006 – Study of World Bank presented in “Saptamâna Financiară” from 05.06.2006. The study is based on the calculated indices from 2004.

The most part of the rural duty is absolutely necessary so that the land price is real.

The land alienation would not have created so many land owners over the night (owning hundred of un-plowing hectares and a permanent negative balance over 1,2 billion dollars annually of the commercial balance) with agro-alimentary products if we take into account that the Romanian rural potential normally valued may ensure food, according to FAO for almost 60 billion persons.

At the same time, the normal taxation of the nature factor would give the right to the “Nature philosophers”, who during almost 3 decades fought for explaining the life substance, starting with Thales, who had water in view, Empedocles who launched the notion of fire, Anaxides for whom the air played the most important role and ending with Empedocles who made the notion of earth known. Probably not by hazard, the most part of the humanity difficult problems in the present phase, are linked to nature, respectively water, fire (electricity), air and land.

Certainly, the taxation of these factors would not ensure them only the necessary protection, but also the necessary resources for their regeneration by means of their own forces, state of things necessary for Romania in valuing the cohesion fund and the structural funds which are mainly allotted for the environment, agriculture and rural development.

In the '30s, the great philosopher Constantin Noica, analyzing the daily policy from the human perspective, made the following remark: “Do you know what we are really doing? We are serving the human being of tomorrow. We postponed all problems and we are preparing for receiving the human being of tomorrow. The charity societies created special dispensaries where the human being of tomorrow can hygienically make the step in his life. Engineers build the streets and architects luminous buildings. Doctors discover the remedy for all diseases – for him ... Does the human being of tomorrow feel well? No, he doesn't feel well yet. He also

needs a pillow. The electric light is too strong for his eyes. Turn the radio up. Are you feeling well now? I sometimes wonder which way he is going to end. What if he didn't have time to think? What if he ends on our planet, or he tries to live on another one. If this kind of human being is going to die geologically or astronomically, instead of dying in spirit? ... it seems to me that we are playing games with our life.”<sup>4</sup>

After decades of bearing several transforming without precedent, his great disciple Andrei Pleșu, referring to Romania in train of adherence, suggested the following: “Accomplishing the levels for different stages of convergence, we must impose ourselves to find answers to the following questions: “What's next?”, “What is the significance of the end of the road in the European sense?” an organized administration and wealth equitably distributed, a little bit of anti-Americanism and a few ideas about the human rights... I do not think that the human rights must become something monumental ... I am afraid that at a certain moment we are going to encounter the problem of an Europe without any objectives – a kind of agreeable reservation, where we shall build something. We are going to have a context without a text. Who is going to be the person giving us the text? It is a real fight for the specialists in order to create the context. My question for the specialists is: which is the text? Are we really thinking about that when we use to sharpen the knives? ... A soul for Europe ... we have to give him a substance, beyond the living together - although I recognize that the living together means too much. Consequently I wonder if is not necessary for us to make a debate about what we are going to do when everything has already been done. This question should be asked now, in order to give a certain color to all our efforts of going just to the target”.<sup>5</sup>

## References

1. Albert, M. - *Capitalism contra capitalism*, Humanitas, București, 1994
2. Bentoiu, C., Bălăceanu, C., Mărgineanu, D. - *Macroeconomie – aplicații*, Editura C. H. Beck, București, 2006
3. Ciutacu, C., Ciumara, M. - *Inflația în România*, Editura Expert, București, 2003
4. Dăianu, D., Vrânceanu, R. - *România și Uniunea Europeană*, Editura Polirom, Iași, 2002
5. De Montbrial, Th. - *Acțiunea și sistemul lumii*, Editura Expert, București, 2003
6. Etzioni, A. - *Societatea monocromă*, Polirom, Iași, 2002
7. Fitoussi, J.-P., Rosanvallon, P. - *Noua epocă a inegalităților*, Institutul European, Iași, 1999
8. Juravle, V., Țâțu, L. - *Fiscalitate aplicată în economie*, Editura Rolcris, București, 2001
9. Smith, A. - *Avuția națiunilor*, Chișinău, Editura Universitas, 1992
10. Toffler, A., Toffler, H. - *Avuția în mișcare*, Editura Antet, București, 2006
11. \*\*\*, *România în Uniunea Europeană. Potențialul de convergență*, București, 2006

<sup>4</sup> Noica, C. – *Death of the human being of tomorrow*, Publicistica III, Editura Humanitas, Bucureti, 2004, pag. 134-135

<sup>5</sup> The Old Dilema, The IIRD year, the 8<sup>th</sup> -14<sup>th</sup> of December 2006

## Menținerea cotei unice de impozitare – condiție a convergenței economiei naționale a României cu spațiul economic european

### Rezumat

*Menținerea cotei unice de impozitare, considerată, cel puțin de profesioniști, ca o condiție a convergenței economice a României la UEM, este impusă de numeroși factori.*

*În primul rând, impozitul trebuie asociat cu ideea că dacă pentru plătitor este o „prelevare obligatorie și gratuită dat către stat, acesta din urmă chiar dacă nu prestează plătitorului un echivalent direct și imediat se achită, putem spune și ca echivalență în diverse perioade, anterioare sau postum. Realizatorul de venituri utilizează în mod direct și indirect părți ale avuției pentru care nu plătește nimic, direct și indirect.”*

*În al doilea rând, impozitele pe venituri trebuie considerate nu atât surse ale bugetului, cât pârgii economice moderne ale motivării, atragerii, consumării și utilizării factorilor de producție.*

*În al treilea rând, trebuie depășită concepția în raport de care utilizarea impozitelor este recomandată în fazele de criză și recesiune ale ciclului economic. Practica a demonstrat că impozitele sunt pârgii economice utile în toate fazele ciclului economic.*