THE IMPACT OF FISCAL PRESSURE IN THE CONTEMPORARY ECONOMY

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Abstract: For this article is departed from the pressure analysis and fiscal policy in Romania carried out on the basis of the standard theory of taxation, taking advantage of its general coordinates as they were founded and formulated by great specialists in the field.

Analysis of fiscal policy in contemporary Romania lies in the relationship between the general theory of taxation, the coordinates of the fiscal policies and concrete-historical aspects of them in to time and space.

Fund units, the interdependence between genres state, human community types and fiscal policies was synthetically expressed by the economist and sociologist Joseph Schumpeter: „The spirit of a people, the culture, social structure, political facts, all this and more can be found in its fiscal history. The one who knows how to listen to this message will understand much better the turmoil of human history").

Another methodological basic principle was exposed, in a much broader concept, by Romanian-born American Economist Nicolas Georgescu Roegen as follows: „The assertion that the fundamental principles of the universal economy are valid can be true only in terms of their form.

Their content is determined by the institutional framework. In the absence of institutional content, principles are nothing but „empty boxes" from which we get „empty generalities".

Society is not a constant entity; it evolves continuously in many forms varying both in time and in place.

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INTRODUCTION

The term fiscal pressure is used extensively in the literature and in fiscal policy to determine the extent of redistribution of national income (gross domestic product) by means of the payment/receipt of taxes.

Sometimes they ignore the quality of tax payers (individual households, private companies, public companies, joint ventures).

At other times, fiscal pressure is only defined at individual taxpayers, taxpayers of direct taxes.

There are situations when the appreciation of this pressure is taken into consideration all kinds of state receipts, all sources of budget revenues (direct and indirect taxes, excise duties, taxes of all kinds).

2. MATERIALS AND METHODS

2.1. Conceptual distinctions

In a general sense, the fiscal pressure is a specialized term that expresses the average intensity of the load or the obligation to all taxpayers to pay taxes to the central government's power and the local authorities *(Dictionary economics, 2001)*.

This relationship is known as a tax coefficient which is calculated as a percentage ratio between payments/tax gains and gross domestic product or a report of other macroeconomic indicator results (gross national product, gross domestic product).

The magnitude and dynamics of the fiscal pressure is measuring and assessment through the rate of taxation.

The size of this rate indicates the proportion of national income taken by the state, established by law or regulation.

A special form of the rate in question is marginal rate of taxation, which is the ratio of the increase in tax obligations of taxpayers and the increase national income. This may be bigger, equal or less than the average tax rate.

Both the average rate of taxation and the marginal rate of taxation have great importance. Sizes and their dynamics are integrated into the strategy foundation for economic growth and social development in the insurance policies of economic stability and promote social justice.

Low rate of taxation implies a low pressure on taxpayers and relatively low receipts from the state budget and local government budgets.

The concept of neoliberal authors is that a taxation rate like this can boost the overall effort to achieve stability of the national income available for accelerating economic growth and therefore lead to an increase in tax revenues to the budget.

High rate of taxation, especially a marginal tax rate rising, could give rise to tax evasion, tax fraud, a decrease in the gross domestic product, so as a last resort, a decrease in tax revenue to the State budget.

The optimal rate of taxation or fiscal pressure consists of that threshold up to which tax and tax revenue beyond which are smaller.

An analytical tool which presents the optimal tax rate is the Laffer curve, named after the American professor who explained the optimal relationship between the tax rate and the size of the revenue collected for the state budget (*The MIT Dictionary of Modern Economics, 1992)*. The American Professor Arthur Laffer has insisted that a rate that exceeds the optimum level has a chilling effect on investors and employees.

2.2. Angles of approach and analysis of the fiscal pressure

Fiscal pressure is deepened by taking into consideration the various planes of her showing at the national level, at the level of individual taxpayers, the economic agents:

(a) Fiscal pressure at the national level has primarily in view the need for collecting resources to cover public expenditure. Fiscal pressure is represented by the tax rate, which is calculated as a ratio between total public financial resources obtained by the state in the form of taxes and duties of a fiscal nature, and a macro-economic indicator of results (as a rule, the indicator used is gross domestic product). The calculation formula is as follows (*Anghelache G., Belean P, 2003)*:

$$r_f = \frac{R_{fp}}{PIB} X 100 \qquad (1)$$

where:

rf = tax rate;

Rfp = public financial resources of a fiscal nature;

PIB = the gross domestic product.

In total financial resources collected by the state are included along with taxes and duties of a fiscal nature, the compulsory contributions paid by employers and employees for the purpose of dedicating funds for the support of social security.

(b) Individual tax pressure shows the value that the taxpayer gives up or rather is forced to drop relative to the size of his income in a given period of time. In this way, the financial pressure causes changes in fiscal economic and social behavior of the taxpayer because of the changes that occur at the level of consumption, but also saving, being regarded as a psychological pressure, which examines the tax threshold of tolerance.

If the fiscal pressure is too high, this can have effects contrary to those pursued by the country concerned, because taxpayers tend to alter economic behavior. However, we note that there is a tendency to increase the level of compulsory levies, even if it causes a drop in revenues. An explanation to this situation brings the model devised by two American economists (J.M. Buchanan and D.B. Lee), a model that is built around two main ideas *(Greffe, X., 1997)*:

■ taxpayer reacts to changing tax rate being at a higher level or lower for taxation depending on the situation;

■ the existence of a differentiation between short-term and long-term behavior;

The demand is inelastic in the short term, but long term can become elastic.

(c) Fiscal pressure at the level of an entity is the greater the share of taxes in the value added by the operator is higher. The taxpayers are individuals and businesses. Obviously, they are forced to pay various taxes to the state so from their point of view there is a fiscal pressure.

The fiscal pressure of an economic agent is calculated as the ratio of taxes paid by the operator and the value added to it. The obligations for payment shall include: income tax, national health insurance and other taxes (buildings tax, land tax etc).

Fiscal pressure felt by the economic agent is enlarged by indirect taxes, even if they are not borne by the firm; they influence the volume of output, as well as competitiveness through price.

2.3. Differentiations in terms of fiscal pressure

Fiscal pressure can fluctuate, depending on the fiscal policy adopted by the state, but it is influenced by economic and political events, etc.

Precisely because of these influences it may be considered that fiscal pressure has several limitations of a psycho-political, economical order *(Hoanta Nicolae, 1997).*

The limits of psychological and political reactions occur as a result of divergent taxpayers due to increased compulsory levies, when they are considered too high.

Taxpayers in these situations resort to tax evasion, fraud; they reduce productive activities and in the most severe cases occur riots and protests.

Economic limits are manifested especially in times when the compulsory levies are growing very high. They can lead to a reduction of employment, savings and investments, as well as the weakening of the entrepreneurial spirit.

The compensations induced by fiscal pressure. Compulsory levies in addition to the negative aspect have a number of benefits directed to taxpayers because of public spending funding.

The size of the fiscal pressure should not be regarded strictly as relative value obtained in different countries to be able to make comparisons between them. It is necessary to take into account the purchasing power of incomes that remain after tax. There are situations where even if in different countries we meet the same fiscal pressure, the conditions are totally different, since the remaining income after tax it is or not enough for subsistence needs.

Through the fiscal policy adopted, states must be careful not to increase fiscal pressure too much in trying to maximize tax revenues obtained, because the opposition to compulsory levy increase can be manifested in many ways, generating adverse phenomena and processes *(Brezeanu P., 1999)*:

■ **Risks of decline of productive efforts.** It is known that a high fiscal pressure will lead to discouraging taxpayers, whether individuals or legal entities, to invest, to save, to produce work.

■ **Political resistance.** These resistances are taking different forms over time and manifest itself as absolute claims for lower taxes, but also by taking a stand by voting.

■ **Fraud and tax evasion.** These practices have always existed, but they can be stimulated to become the rule in situations in which compulsory levies are high.

■ **The risk of inflation through taxation.** Increasing tax rates has a direct effect on prices set by manufacturers, thus trying to recover through price what they pay in the form of taxes and social contributions.

■ **The demands of international competition.** Any country succeeds by its own competitiveness to determine growth and increased living standards.

Increasing taxes for businesses has as a result the reduction of the opportunities which they have in competition with similar foreign companies.

Considering the rise of all contributions to be paid, it will always remain on the question what is the maximum size which the fiscal pressure is allowed to reach, so as not to obstruct economic and social behavior of the taxpayer, and the financial resources obtained by the state to be the expected ones.

It is difficult to determine the optimal amount, to the extent that it would lead to achieving all the macroeconomic and macrosociale set objectives.

High taxation removes potential investors, but mostly causes taxpayers to seek measures to avoid the payment of various obligations [more or less legal measures] *(Gorcea C., 1997)*.

The ability to avoid higher tax pressure and simultaneously getting income is represented by loans. However, recourse to loans, in an attempt to reduce the tax burden, is a valid method only for short intervals.

Over long intervals of time, not only that fiscal pressure is not reduced, but because these loans can grow, if the amounts borrowed have been unreasonable.

Lately it has been noticed an increase in fiscal pressure, which is explained by the intervention of the state to a greater degree, both in the economy and in society *(Ionescu C., 2004)*.

We affirm this fact, since the financial resources gathered represent a fundamental source to cover government spending, and the financial resources and fiscal pressure had the same evolution as the public spending that is growing over time.

CONCLUSIONS

Taxation can occupy an important role in improving the current situation or in providing a supportive environment for economic activities. It can be use two different methods, both by making reference to the way it manages the fiscal pressure.

It can appeal to a high financial pressure, in which the state builds up a significant part of gross domestic product at his disposal, thereby restricting the financial resources that people might have. In this context, the state by taking over a significant part of the financial resources can offer people a wider range of public goods and services, because it has limited the population's access to goods and services acquired directly from the private market.

The second possibility is expressed through a reduced fiscal pressure. This has the effect of acquisition of greater financial resources by population in return for which the state will collect a small part of gross domestic product. The upshot is an increase in the quantities of goods and services purchased on the private market and a decrease in the size of public goods and services offered by the state.

In both situations, the importance is the way in which financial resources are managed. If these resources are not used effectively, the population will feel the fiscal pressure with greater severity and will feel more burdened than in reality.

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