

## I. CONTENTS

Introduction.....	5
<b>Chapter I RELATIONSHIP OF STATE WITH THE ECONOMY AND SOCIETY – INSIGHTS OF UNIVERSAL ECONOMIC THINKING.....</b>	<b>29</b>
1.1. Economic ideas and those of the state type organization in the Middle Ages and antiquity.....	29
1.2. The transition from feudalism to capitalism and the emergence of the modern state.....	32
1.3. Classical and neoclassical liberalism.....	36
1.4. Economic dirigisme.....	48
1.5. Neoliberalism.....	52
1.6. Conclusions.....	59
<b>Chapter II THEORETICAL AND PRACTICE FUNDAMENTS ON THE NATIONAL ECONOMY AND ITS DEVELOPMENT.....</b>	<b>63</b>
2.1. The concept of national economy.....	63
2.2. The concept of economic development.....	67
2.2.1. Factors of economic increases.....	71
2.2.2. Type of economic increases.....	72
2.2.3. Theories emerged over time on economic growth.....	73
2.3. Brief history of the Romanian economy in terms of its development.....	76
2.4. Human resources - direct factor of economic growth.....	93
2.5. Romania's natural resources - fundamental basis of the national economy.....	98
2.6. Conclusions and proposals.....	107
<b>Chapter III FISCAL REFORM AND POLICY IN ROMANIA.....</b>	<b>113</b>
3.1. General considerations on the national public budget and the budgetary process.....	113
3.1.1. Definition of state budget.....	113
3.1.2. The budget process in the state budget.....	119
3.2. Budget deficit and how to reduce or eliminate it – proof of consistency of budgetary policy with impact on economic development goals.....	129
3.2.1. Budgetary policy.....	129
3.2.2. The budget deficit.....	131
3.3. Taxation, tax system and fiscal policy.....	138
3.3.1. The concepts of tax and fiscal system.....	139
3.3.2. General considerations on the basic component of the tax system - tax and duties.....	146
3.3.3. Fiscal policy.....	151
3.3.4. Romanian fiscal policy reform and the impact of EU accession on taxation in Romania.....	159

3.3.5. Fiscal pressure. Laffer curve.....	178
3.4. Conclusions.....	183
<b>Chapter IV INFLUENCE OF DIRECT TAXES ON THE ROMANIAN ECONOMY FROM 1990 TO PRESENT AND FACTORS THAT HINDER ECONOMIC GROWTH AND DEVELOPMENT OF ROMANIA.....</b>	<b>190</b>
4.1. The influence of profit tax on economic and social development of the national economy of Romania.....	190
4.2. Corruption and tax evasion – the major impediments to the development of the Romanian economy.....	217
4.2.1. Corruption – a capture form of state by the economic lobbyists.....	217
4.2.2. Tax evasion – anti-economic phenomenon, a reality of the Romanian economy.....	237
4.2.2.1. The effects of tax evasion.....	248
4.3. The trend financial and economic crisis - a situation insurmountable for Romanian economy ?.....	257
<b>4.4. Conclusions and proposals.....</b>	<b>271</b>
<b>SYNTHESIS OF THE CONCLUSIONS, OPINIONS AND PERSONAL CONTRIBUTIONS ON THE DEVELOPMENT OF THE ROMANIAN ECONOMY THROUGH TAXATION.....</b>	<b>281</b>
<b>CLOSURE.....</b>	<b>300</b>
<b>BIBLIOGRAPHY.....</b>	<b>302</b>

## II. KEY WORDS

National economy, economic growth, economic development, taxation, tax system, fiscal policy, budgetary policy, national public budget, corruption, tax evasion, economic crisis, taxes, duties, budget deficit, global economy, European Union, fiscal competition, partnership economy, profit tax, indirect taxes, direct taxes, economic progress, economic thinking, government authorities, standard of living, population, economic resources, human capital.

## III. SUMMARY

National economies are evolving into a territory more and more extensive due to the fact that globalization obtains new values. Footprint of globalization on **national economies** has to be seen more seriously, forcing the continuous adaptation of economic, social and political mechanisms on the developments of international events.

Intense focus on income, be it about budgetary resources, profits, dividends, salaries, is increasingly fierce. National states struggle for their economic interests, trying to find solutions

to grow and develop their economies in order to maintain or increase the standard of living of population.

In this context, the role of finance is overwhelming, as they are tools used by the state for **its actions in economy**, for achieving economic and social policy goals. Using financial leverage, the state intervenes in economic and social activity through the system of budgetary income, realizing judicious distribution of gross national product, balance and stability of the state budget, local budgets, financial control.

The contemporary world is a result of previous developments, accumulating a vast social experience. The whole “movement” of human society preceded the moment, with the proportions, many of them higher to the stages so far, facilitating a conscious approach, projections of future developments.

Initially, economic thinking was a reflection of the religious one perpetuated in texts with sacrosanct importance, leaving this environment of moral, religious, philosophical and political thinking precisely in the modern era. In ancient times, with the advent of the first forms of state organization were reported first written legal documents such as the Code of Hammurabi necessary to economic and social regulation. Then, there was the Old and New Testament documents representing a new conception of religion and a new attitude about society or about the development of freight economy. The first leap in universal economic thinking to be mentioned is the emergence of **scholasticism**, which contributed to the education of people and development of crafts.

The emergence of the modern state and the transition from feudalism to capitalism was a turning point in the evolution of economic thought and beyond, many scholars of those times expressing their ideas in writing and enriching heritage of universal knowledge. Among them we can mention, in some timeline, Jean Bodin, Niccolodi Bernardodei Machiavelli, Thomas Hobbes, John Locke, Charles-Louis de Secondat, Baron de La Brède et de Montesquieu, Jean Jacques Rousseau, Jean Jacques Rousseau, Luis de Ortiz, Count-Duke of Olivares, etc.

Those mentioned are just some of the titans of economics who left descendants rationalist thinking, Enlightenment power, mercantilism (French, German or industrial), social contract theory, founded liberalism etc. Valuable ideas they launched underlie at the bases of leadership policy of state, the management of public funds (which was obtained by taxation, i.e. taxes). In other words, there has always been a strong concern for the economy, for storage, for taxation, for state, without these elements the human society could not continue its path and move towards Contemporaneity.

Liberalism, a socio-political and ideology trend promoting freedom and equality in rights, a word with essence in constitutionalism, liberal democracy, free and fair elections, human rights, free trade and freedom of religion, appears due to confrontations between mercantilist and Physiocrats “led” by Francois Quesnay.

Physiocrats launched the formula “laissez faire, laissez passer, le monde va de lui meme” which means “let it be done, let it pass, the world goes by itself” or in other words, “let things run its course naturally”, specifically targeting the need to remove obstacles and restrictions on

the production and trade. Liberalism was originally promoted by Adam Smith and had branded followers as Jean Baptiste Say, Thomas R. Maltus, David Ricardo, John Stuart Mill or Leon Walras.

Against liberal theories have been raised a number of intellectuals, close to socialist or communist theory, such as Simone de Sismondi, Henri de Saint Simon, Robert Owen, Charles Fourier, Louis Blanc, Pierre Joseph Proudhon and Karl Marx. Against the liberal doctrine of the English classical school arose also the German historical school, which presents another thought on the issues, methods and scope of political economy. German Economists (Friedrich List and Adolf Wagner) consider the state as an active agent of economic progress, being supporters of interventionism.

Economic dirigisme, in a first stage, was more a widened interventionism, its important representative was John Maynard Keynes, whose economic contribution must be seen in terms of confrontation with the First World War and the economic crisis of the interwar period.

Neoliberalism (with its representatives, Ludwig von Mises, Friedrich A. Hayek, Maurice Allais, Lionel Robbins, Walter Eucken, Ludwig Erdhardt), an economic trend whose appearance was based on the confrontation of ideas between dirigist and classical and neoclassical economists, determined liberals to improve their economic theories and connect them to the reality of the period.

Monetarism, of thought trend which reveals that the balance of the market economy would almost automatically be achieved by an official control of money mass in circulation, admitting an annual increase of it by a certain percentage, its important representative is Milton Friedman.

In the 70s, was formed a new trend called “rational expectations theory” promoted by economist Robert Lucas, Thomas Sargent, Robert Barro and John Wallace, whose central idea is the judgment that because of people's rational expectations, the state cannot deceive people by systemic economic measures.

The 80s brought in the economic thought the theory of supply, represented by Arthur Laffer, Paul Craig Roberts and Norman Ture. Thinking Trend was one anti-dirigist, appreciating that these ideas would stagnate productivity through the tax system that destroys initiative and determines shortcomings in rewards of line production factors owners: labor, nature, equity and management.

In conclusion, economic theory constantly supported and accompanied economic practice, but failed to solve the problems national economies were facing always being born other challenges that have led to changes in the views of the great economists of the world.

The national economy is a set of productive and unproductive activities, historically constituted, developed within the national borders of a State and the expression of cooperation and division of labor in the state and the nation as distinct historical entities.

The economic development of a country highlights all the quantitative and qualitative changes occurring in the economic and social and scientific-technical structures, in economic mechanisms, and thinking way, in the economic behavior of people.

Economic growth is an increasing trend of the national economy in the medium and long term, but that does not preclude cyclical fluctuations even temporary economic setbacks.

Theoretically and practically, the relation “economic growth and development” is a relationship mediated by the part to the whole: economic growth-economic development-social progress-economic progress.

Economic growth factors are direct and indirect. In the category the direct ones enter: human resources, natural resources, capital and technology. Indirect growth factors are: the size of aggregate demand, international trade, investment rate, research and development expenses, financial, monetary, budgetary and taxation policies, environmental policy, etc.

Among growth factors, in our work we addressed two of them as human capital and economic resources.

In Romania, from 1990 to the present (2014), state spending for education were not sufficient, so we can say that, as a factor of growth, human capital has generated economic growth and development according to the expectations. In other words, in Romania intellectual investment is not handled with due care, and this will certainly have negative effects on medium and long term of economic growth and development plan.

Although the Romanian soil and subsoil riches stipulated by Romanian specialists is huge (billions of euro) Romanian economy is not developed and the standard of living is low. What is happening?

Given the fact that in recent years, companies operating in the fields of economic resources in our country (in the mining, electricity, salt, etc.) financial statements have not been as expected in relation to the potential of these sectors, **we believe that** the management established and implemented after 1989 was extremely poor, being raised frequently arbitrary decisions politically influenced or within the area of private interests, a situation that is not likely to lead to economic growth and development of our country.

After the Second World War, when most of the participant states to the military conflict were engaged in the post-war recovery and creation of conditions for economic growth and development, Romania has lost much of its economic substance to pay war reparations, high costs that have added to those actually generated by involvement in conflagration. Soviet influence (postwar) had for Romanian economy far-reaching negative effects, the costs of this being borne by the population.

The 90s marked the Romanian economy with the existence and manifestation of imbalances due to the way the order economy functioned. Specifically, we refer to imbalances of sectors producing material factors of production and the production of consumer goods, of industry and agriculture, of branches of material production, the service and the infrastructure

sector, and the branches producing main factors and energy and those consuming these resources.

In the immediate post-revolutionary period, governments in power have set off in error the idea that in the new market economy the state should not be actively involved in the economy of growth policies, limiting only to measures relating to the establishment of lawful state and insuring public order.

Romania's economy in the years 2010-2014, is manifested as a modest structured system in terms of institutionally, perpetuating the practice of discretionary interventions by the public authorities, most often subject to political interests of conjecture. Also, under-monetization restricts the economy in the sense that the ratio of broad money to GDP is at a level far below that required for optimum performance. Among the problems that “grind” Romanian economy we mention corruption and tax evasion and dealing with agrarian crisis.

In conclusion, the present Romanian economy has some negative determination in its previous and post-revolutionary past. Against this background, we believe that to achieve a level of growth and development that allows raising the living standard of the Romanian people, growth policy should cover mainly three elements: investment in production of goods and services, increasing exports and domestic consumption.

The state budget is a very important act of public life, since it is the financial “image” of the action program of the state in a period of one year. It is not made without taking into account certain principles, enshrined in law, such as fundraising and allocating them to perform in an optimal way, with benefits for all members of society, so society's resources cannot be taken and used at will of the ruling political decision makers in a certain period of time.

The key to any government that wishes to provide welfare for their citizens is the budget deficit, i.e. that form of imbalance of public finances where public financial resources request is too high compared to the funds that may be in the state for its cover. The budget deficit was not accepted by the classical economists, budget balance being considered the “golden rule” of public financial management. In classical theory, the budget imbalance is harmful because it may cause inflation or impose increased taxes to cover the debt. In time, economists have frequently changed their views on the harmfulness of budget deficit, some considering it in some cases even beneficial.

In our opinion, located somewhere on the border of theories (launched in one direction or another), budget deficits are not always welcomed and their sequence should not be maintained indefinitely, for two reasons: the fiscal period does not identify the business cycle, and the positive effect of budget deficit can be offset by the balance of foreign payments deficit and the rise in prices.

After the Revolution of 1989, Romanian fiscal policy has gone through three stages, such as early stage of taxation transformation to be compatible to new realities imposed by the transition from communist economy to a capitalist economy, a stage of modernization of tax

rules to Romania's accession to the European Union and final stage of assimilation of European norms.

In this time of fiscal policy reform, the Romanian economy has experienced significant growth, but both global and national economic crisis and other reasons have slowed positive development. However, for our country, the year 2007 marked the adoption of “acquis communautaire”, i.e. laws and regulations, administrative and institutional reforms, human and budgetary resources necessary, unprecedented situation in the history of the Romanian economy.

Currently, Romania needs a sustainable fiscal policy that involves eliminating waste of financial resources (by applying a public expenditure management), macroeconomic and structural balance that can be achieved, a general context allowing economic development.

We believe that in the current stage, the main objectives of the Romanian fiscal policy should contribute primarily to economic development and strengthen of the middle class. Also, fiscal vision must be thus qualitative and active by encouraging initiative and respect for risk taking by private entrepreneurs.

Through fiscal, financial and monetary policy, the state intervenes in the economy to eliminate major imbalances, such as inflation, unemployment, the budget or payment balance deficit etc. Finally all state intervention in microeconomic or macroeconomic level have a common overall objective – economic growth and development in order to raise the living standards of the population.

Providing tax incentives (rebates, exemptions, etc.) on payment of profit tax was made in the context in which the governments of Romania, in the period 1990 – currently, pursued a double benefit both for the state and the companies, which finally led to the influence of national economy.

Analysis of tax legislation in force in the period 1990 – present, shows that tax incentives offered by the state (the profit tax line) have left for the taxpayers additional financial funds that were directed towards investment, a situation that led in time to economic growth and development. Also, a number of fiscal regulations published in Romania during 1990 to present, referred to the idea of “stimulating investments”.

Corruption, i.e. the abuse of power for personal gain, inside or outside an institution or organization is a phenomenon that actually grinds Romanian economy and society at all levels since 1990. This phenomenon is a threat to democracy, the rule law, social and justice equality, a scourge that erodes the principles of efficient administration, undermines the market economy and threatens the stability of state institutions.

Between the economy and corruption is the following relation:

- Corruption impairs the ability of the state to develop quality public services;
- Prevents the development of small and medium enterprises on which the tax burden mainly falls and which have no access to economic resources;
- Corruption raises transaction costs and creates an economic climate marked by uncertainty;

- Favors the selection of inefficient public projects at the expense of sector reform policies;
- Creates an environment favorable to the development of the underground economy;
- Reduces collection of taxes from the state budget.

On the segment of human capital (as a factor of economic growth), a major problem in Romania is hiring in various public positions (management or executive segment) persons poorly trained, predisposed to acts of corruption, which are not able, nor willing to guide and use the levers available to the good of society - the development of the Romanian economy.

Given this negative situation, it is necessary the establishment of an authority, under the presidential institution, as “the Surveillance and Control Authority of Public Vacancy Examinations” which primarily aims at providing employment in all public functions (execution of management) of people well prepared in terms of professional and that can prove moral and professional integrity. In our opinion, it is necessary that in all public institutions, state-owned companies or other entities that receive public funding, staff hiring to be carried out under strict supervision of Surveillance and Control Authority of Public Vacancy Examinations through direct participation in the examining commissions of the representatives of the newly created structures.

Another phenomenon that hinders the development of the Romanian economy is tax evasion, which consists of avoidance taxpayers to pay their respective tax liabilities, partially or completely, using loopholes or resorting to ingenious maneuvers, to conceal taxable matter.

Causes of tax evasion are:

- tax burden;
- legislative inconsistency and instability;
- economic instability;
- risk-taking propensity of the taxpayer to avoid taxes;
- deficiencies found in tax civics and degree of voluntary compliance of taxpayers;
- weaknesses in the tax control device.

Fiscal pressure expresses the intensity with which taxes and contributions are levied from businesses. This indicates the extent to which nominal incomes of the population are reduced through taxation and at the same time, reveals the extent to which consolidated state budget gets its income from collection of taxes. A high tax burden leads to a high evasion, high evasion translates into low income to the state budget and insufficient income require increased fiscal pressure, which means that we are in a “vicious circle” at least in terms of theory.

Tax evasion phenomenon has consequences at the macroeconomic level, such as state financial income deprivation due, a fact that limits its scope of intervention and financing economic and social activities. At the microeconomic level, traders are evading taxes, context that allows for lower costs and thus obviously unfair competition to those who work honestly, distorting thus free market mechanisms.

The existence of tax evasion lowers tax revenues, which will have the effect of increasing the budget deficit. Using this reasoning, we can state that the existence of tax evasion has a negative effect on the general equilibrium of the economy by increasing budget deficits because of the state's failure to collect the estimated amount of tax revenue.

On the other hand, besides the phenomena of corruption and tax evasion, the Romanian economy is affected by the global and national financial and economic crisis.

The effects of the crisis on the Romanian economy in the first year of the crisis (2009) can be summarized: the budget deficit, a significant decrease in GDP, currency depreciation, a substantial reduction in the current account deficit, the relatively high short-term external debt.

If we consider strictly Romania, the main cause of the crisis is the excessive consumption on credit, plus others, such as too rapid opening of the capital account, pro-cyclical fiscal and budgetary policy, low uptake of EU funds, the deregulation, the phenomenon of corruption associated with mismanagement of funds, the polarization of income distribution and speculative bubble in the housing market etc.

Regarding the causes of the current economic crisis has drawn our attention the opinion of University Professor Anton Drăgoescu which considers that the nominal economy is “guilty” of producing economic and financial crisis, as a value expression of the actual. He makes a distinction between real and nominal economy in the sense that the former “produces material goods and services for productive and unproductive consumption, directly related to the system of needs of human society, and the latter (as a value expression of the actual) that “produces imbalances between demand and supply of goods, usually post-factum and with real losses of resources, costs and revenue, stranded losses with harmful effects on sustainable economic growth and the standard of living and quality of life”.

Both centralized economies and the market economies have shown limitations in that it failed to respond fully to the needs of people, which is why we need to promote an improved form of capitalist economy as “partnership economic of European type”. The essence of this type of economy is the co-participation of employees to profit from general considerations that the current market economy polarizes income (a minority has the largest share of the “wealth” of the country, and another – the majority – is content with minimal resources, from the position of employee or social assistance).

States of the world are permanently concerned about economic growth, economic development and the growth of budget revenues. By taxation governments can achieve their goals, but subject to used tax policies to be oriented in the spirit of a partnership between the state and the taxpayer, an open social contract in which each meet their obligations. On the one hand, the state to create the framework for business to operate freely, to develop to the desired level, and on the other hand, the latter to honor their tax obligations in full and within the period prescribed by law.

Certainly, the state must not lose focus that businesses if they feel prisoners of taxes will direct efforts to bypass them, getting within fiscal evasion area, i.e. the scope and incidence of

criminal law. Or, bringing to criminal liability of fraudsters should not be the priority of the authorities; the latter must prevent the “entry” of taxpayers in the criminal area.

Or, bringing to criminal liability of fraudsters should not be the priority of the authorities; the latter must prevent the “entry” of taxpayers in the criminal area.

Corruption is a major impediment to economic development of Romania, so that it must be combated by force, in the manner in which is achieved today, by bringing to criminal responsibility of all persons involved in such activities. However, if today, only the bringing to criminal liability is a solution for corruption, in the future, it is necessary to educate the younger generation in the spirit of labor and value, and not obtaining immediate benefits with minimal effort.

Also related to the economic development of the country is the economic crisis, a situation that can be overcome only by involving high-class specialists in making programs to overcome this situation, not politicians.

In conclusion, we believe that when the “law and high-class specialists will give the exact time in the Carpathian-Danubian-Pontic space”, Romanian economy will function as a “Swiss watch” and economic growth and development will soon occur. By then, about economic development will be discussed and be written more, but without progress in this direction.