In 2010, the Romanian government in order to meet IMF requirements to reduce the budget deficit and to create conditions for economic growth, cut budget expenditures by 25% amputating the salaries of the civil servants, and increased the VAT rate to 24% to increase government revenues.

The study makes a parallel between the measures adopted by the Government of Bucharest and the alternative solutions offered by the employers' associations.

The conclusion of this research is: the two Government measures have had a strong negative impact on the social sector and on the economic sector. Over 1 million public servants had to reduce consumption, which affected the engine of the economy - the private companies.

Keywords: economic crisis; budget deficit; consumption; value added tax; social and economic effects

1. The general situation of the Romanian economy and the problem which had to be solved.

The effects of the global economic crisis have been heavily experienced in Romania ever since 2009 and first of all they affected the exports of the national companies, but the real estate field, too. The decrease of the GDP and implicitly the decrease of the tax revenues in the public budgets determined the central administration to make an agreement with the IMF to support the national currency and to finance the budget deficit. This agreement stipulated a series of measures which the executive administration from Bucharest had to take in order to establish the macroeconomic stability of the country. The main measure which had to be applied was to reduce the budget deficit by cutting public expenditure.

2. The scenarios taken into account to comply with the conditions from the agreement with the IMF on the reduction of the budget deficit.

The first option of the Government was to reduce pensions by 15% and the other allowances paid from the budget of the public social insurances (Law no. 119/2010) and the wages by 25% and the other categories of personnel expenditure paid from the public budgets (Law no. 118/2010) starting with the second semester of 2010. This measure would have reached a double goal: first, it would have decreased the volume of personnel expenditure below 20% of the entire budgetary expenditure, the way it was stipulated in the agreement, without carrying out any other structural reforms of the Romanian system for the civil servants, and secondly, the budget for 2010 would have been within the established deficit limit, that is 6.4% of the GDP.
The first option could not be entirely applied because the reduction of the pensions by 15% was declared unconstitutional by the Constitutional Court of Romania (Decision 871/2010). Consequently, the second option was applied, concerning the increase of the budgetary revenue by increasing the VAT quota from 19% to 24% and keeping the salary cuts stipulated in Law no. 118/2010.

These fiscal measures completely opposed to the declared fiscal policy which should have been „characterized by coherence, predictability and stability by elaborating projects to change the Fiscal Code and the Fiscal Procedure Code, unitarily integrated and harmonized with the EU directives, as well as with the economic realities”. (Sebastian Vlădescu, p.15)

However, we have to mention that the change of the VAT quota was not a wanted measure but an extreme measure taken at the last moment, in order to comply with conditions from the framework agreement to release the instalments from the IMF and the EU.

3. The analysis of the results registered due to the application of the measures for re-establishing the budget deficit.

This pack of measures for re-establishing the macroeconomic balances was adopted on June 30th, 2010 and enforced on July 1st, 2010, that is the next day. The psychological impact on the population and on the business environment was a very powerful one affecting the whole Romanian society.

In this analysis we intend to investigate the financial-fiscal effects of the budgetary policies for re-establishing the budgetary balance, compliant to the clauses of the IMF agreement and the convergence criteria of the European Union.

The analysis of the budgetary expenditure points out the fact that on short term, the measures taken resulted in reducing it but not to the forecasted level. In table no. 1. There are represented the amounts of the monthly expenditure, cumulated from the beginning of the year, starting with June, the month when the measures to balance the budget were adopted, compared to the similar period of the previous year – 2009.

<table>
<thead>
<tr>
<th></th>
<th>June</th>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>November</th>
<th>December</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>91658.7</td>
<td>109825.1</td>
<td>125592.4</td>
<td>141333.3</td>
<td>156551.9</td>
<td>173120.2</td>
<td>193025.4</td>
</tr>
<tr>
<td>2010</td>
<td>95295.8</td>
<td>113344.5</td>
<td>127165.3</td>
<td>143709.9</td>
<td>160531.4</td>
<td>177316.2</td>
<td>201903.6</td>
</tr>
</tbody>
</table>

Source: www.mfinante.ro

The amount of public expenditure in 2010, cutting the salaries by 25%, was maintained to the level of the data registered in 2009, the registered increase being of 4.5% only. As it results from the dynamics presented there are no inflexion points to be emphasised, which may show the fact that the progressive trend of expenditure may have been significantly modified in order to reduce it, or to drastically reduce the rhythm for increasing public funds. We should point out that in June 2010 the expenditure was 3.9% higher than the year before, in the following months the expenditure increase percentage dropped to 1.2% which confirms the effect of the measures on very short term, because in November the ratio of expenditure increase reached 2.4%, and in December, as we showed 4.5%, that is a higher level than the one registered in June, before applying the austerity measures.

We can appreciate that these measures for cutting expenditure had the desired effects to a very low extent. If we talked about the huge social costs that resulted from cutting
expenditure we could draw one conclusion: the measures taken, analysed in the light of the results obtained, are not justified.

However, the number of civil servants is too high which results in salary expenditure which is much more than the optimum amount. This reality requires governmental measures which should not be that kind of brutal amputation of the revenues but restructuring and re-dimensioning the public services. It is true that the reorganisation of the budgetary sector cannot be carried out overnight and cannot produce immediate effects in order to reduce the budget deficit. But considering that this type of measures leads to obtaining middle and long term effects, which consolidate the macroeconomic balances we believe that this should have been the path to be followed.

Still, in order to have a complete analysis, at least from the budget point of view, the revenues also have to be analysed, because the pack of measures is meant for reducing the budget deficit, not only the expenditure.

The revenue categories investigated (value added tax, income and salary tax and profit tax) represent the main sources which fuel the budget and that will undergo modifications due to the application of the pack of anti-crisis measures. In table no. 2 there are presented comparatively the receipts in 2009 and 2010 for the second part of the year, for every month, cumulated from the beginning of the year.

### Table no. 2.

<table>
<thead>
<tr>
<th>Month</th>
<th>Value added tax</th>
<th>Income and salary tax</th>
<th>Profit tax</th>
<th>Total of budget revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>06</td>
<td>17059.2</td>
<td>16433.4</td>
<td>9400.7</td>
<td>8953.0</td>
</tr>
<tr>
<td>07</td>
<td>19808.1</td>
<td>19653.8</td>
<td>11115.0</td>
<td>10513.7</td>
</tr>
<tr>
<td>08</td>
<td>22284.2</td>
<td>23290.9</td>
<td>12501.0</td>
<td>11862.4</td>
</tr>
<tr>
<td>09</td>
<td>25324.9</td>
<td>27180.9</td>
<td>13951.0</td>
<td>13486.0</td>
</tr>
<tr>
<td>10</td>
<td>28487.7</td>
<td>31414.8</td>
<td>15468.9</td>
<td>14917.8</td>
</tr>
<tr>
<td>11</td>
<td>31180.9</td>
<td>35311.7</td>
<td>16871.3</td>
<td>16288.2</td>
</tr>
<tr>
<td>12</td>
<td>34322.4</td>
<td>39246.0</td>
<td>18551.4</td>
<td>17956.8</td>
</tr>
</tbody>
</table>

Source: www.mfinante.ro

The immediate effect of the measure for cutting the public servants’ salaries by 25% was the decrease of the amounts collected from the income and salary tax. Thus, at the end of 2010, the receipts were by approximately 600 million lower.

If concerning the decrease of the receipts from the income and salary tax there was a forecast evolution, the receipts from the profit tax were expected to increase not to decrease.

The decrease of the buying power of the people employed in the public sector lead to the decrease of demand which had direct impact on the private sector by reducing the profit volume achieved. This way, at the end of 2010 the receipts from the profit tax were over half billion lei lower than the year before.

Going further and also adding to the equation the VAT quota increased from 19% to 24%, it lead to the fact that the population’s buying power registered a new decrease which inevitably manifested on the market by the reduction of demand, which automatically had as a result the reduction of the offer and the decrease of production.

For these reasons the gross domestic product in Romania was 511581 million lei only, instead of 538917 million lei as it had been forecast at the beginning of 2010.
But the increase of the VAT quota brought to the budget receipts over 4900 million lei more which compensated the loss from the other taxes, and, even though expenditure did not decrease (in fact it increased), the budget deficit was within the limits prescribed by the IMF.

Looking at the budget revenues as a whole, we notice that at the end of the year their amount registered an increase of almost 12000 million lei, increase which was remarked ever since July 2010.

Analysing the structure of the income taxes we notice that the weight of the revenues from the indirect taxes registered a significant increase to the detriment of the revenue weight from direct taxes which results in social inequity and affects the functioning of the national economy.

Cumulating the effects produced by the measures of cutting budget expenditure with the effects produced by the measures taken in order to increase budget revenues we will see that the budget deficit, the short term objective intended when defining these austerity measures, registered a decrease starting with August, the first month when the application of the measures taken on June 30th, 2010 produced effects.

In the chart no. 1 there is presented the comparative situation of the budget deficit in 2009 and 2010 registered every month, in the second semester, but cumulated from the beginning of the year. In the chart there are pointed out the net amounts of the deficits expressed in million lei as they are presented in the official statistics.

**Chart no. 1.**
The evolution of the budget deficit in 2009 and 2010 in Romania calculated cumulated from the beginning of the year and expressed in million lei

Source: processed from: www.mfinante.ro

As one may notice, the budget deficit in June and July 2010 was higher than in 2009 which showed that Romania was on a very dangerous ascending trend that had to be changed to reduce this deficit. Starting from August, the deficit started to decrease but it maintained at a very high level.
The decrease of the budget deficit had become a priority for the government because the possibilities to finance it were more and more expensive, and the banking offer was very expensive.

4. Conclusions

In the end we wanted to express a few considerations, personal opinions, conclusions on the researched theme. I would start from the definition of the laws because this way we can understand their spirit and interpretations. This definition says that the laws “are made to serve the people, not to subdue them. They should be formulated and interpreted so that to allow the economic development which brings well-being to all groups within a nation.” (L. Von Mises, p.8)

I completely agree with this idea and I say that any normative act has to be analysed especially in the light of the effects it will impose.

I consider that even if theoretically there were obtained some results on short term, on long term there will be negative effects and the economic crisis will affect Romania for many years.

Even if the budget deficit accumulated due to personnel expenditure has to be reduced in order to create the premises for a functional market economy, the way this was done in Romania was not well thought, meant for very short term and with the objective to receive the next allowance from the IMF not to restructure the public sector.

Such an approach has very high social costs and does not ensure the recovery of a normality of the macroeconomic balances.

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6. www.mfinante.ro

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