

NEW APPROACH OF MEASUREMENT METHODS AND FORMS OF TAX POLICY EFFECTS IN ROMANIA

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Empirical evidence showed that through the use of the taxes the tax policy generates psychological effects, financial effects, social effects, economic effects, socio-economic effects and environment effects, both at macroeconomic and mesoeconomic and microeconomic level. The complexity of decision making on taxes, determined by the evolution of economic variables, government objectives and the diversity of fiscal techniques used vary from country to country, therefore we can not define general concepts that are universally accepted or acceptable, regarding the effects generated by them. To understand the functioning of the economy must address that in dynamic, as a stochastic system that responds to current and past shocks, shocks to be analyzed in order to adapt the system.

A number of studies have highlighted the effects of taxation in economic life, based on autoregressive vectors including Blanchard and Perotti (2002), Fatas and Mihov (2003), Favero (2002), Gal, Lopez-Salido and Valles (2004), which bring into question how different variables are responsible for fiscal policy changes and Romer and Romer (1994), Ramey and Shapiro (1998), Edelberg, Eichenbaum and Fisher (1998), Blanchard and Perotti (2002), Burnside, Eichenbaum and Fisher (2003), Eichenbaum and Fisher (2004), Dima and Lobonț (2009 and 2010) have used additional information such as timing of wars, detailed institutional information about the tax

system or electoral cycles and political cycles, to highlight the effects induced by taxation.

The effects of fiscal policy are varied, depending on their expression are *microeconomic and macroeconomic effects*, which are interrelated in the formation and modification of behavior of economic agents, both economically and socially, leading to *psychological, economic, social, political, environmental and other effects*, on *different time horizons*. Therefore, achieving a classification of the effects of tax policy is based *almost impossible and difficult*, requiring a large amount of knowledge, scientific insight and sound impressive volume of comments. But because we have a creative potential, in this paper we give a new classification criteria of the effects of taxation, following strictly the direction of evolution of variables: economic effects, socio-economic and political effects.

Economic effects arising from the changes in aggregate demand at national level, when an increase in fiscal pressure has as results a reduction in global demand by taking a larger part of nominal income to the state and the structure of aggregate demand, thus depending on the type of taxation, there is a greater intensity in higher income tax, while distributing more budgetary resources to lower-income traders.

Socio-economic effects are manifested in the taxpayer life, on their options for time spent on work or leisure

time, because of the consequences in the social and economic products.

These effects must be addressed synthetically because they express chain reactions of all taxpayers regarding taxes, changes in tastes and values of the scale, the redistribution of costs, savings, debt and changing conditions of work and life in general. Therefore, taxation is the product of social factors, which determine, before any other factors, physiognomy, and in turn, acts on social, where various causes and many effects.

Political effects must be addressed both in the sense of the effects arising from fiscal policy on political and electoral cycles, and reverse the political factor may influence the structure of the tax system.

Effects generated by fiscal policy decisions and gradually spreads to a certain frequency on socio-economic variables, and could capture three distinct periods in this regard:

- the recognition period, which is the time required to identify problems occurring in the economy through fiscal policy and requires correction;

- the implementation period, which is the temporary period of time that elapses until the moment of identifying problems and the moment of deciding the election and fiscal policy;

- the impact period, which is the time spent since the fiscal policy implementation and decision moment manifests its first effects.

In this framework, the first issue to be considered is that of sizing the types of effects and then, analyze their manifestations in social and economic life, on the economy or the individual level.

Construction of coherent, sustainable development, requires above all, to combine three main coordinates - economic growth, social cohesion and environmental protection, who are often contradictory.

For a fine approximation of the tax mechanism, consistent with other policies, as a necessary knowledge and understanding of how the tax items covered elements, becomes necessary to measure the actual tax incidence. *An optimal tax policy* should ensure equity between businesses and individual contribution in relation to recovery capacity that manifests.

In this context, we find that, unlike the specialized works of many economists, published in Romania, in most approaches to fiscal policy in our country, are referred, in particular to the technical elements of the tax provisions such as as, for example, the regulations (enacted) of tax rates and comparing them with those of other countries, or administrative issues (collection, exemptions, arrears, etc.), and in fewer works are references to the elements that result from the impact of fiscal policy in economic reality.

Gordon and Wilson (1999) showed that *an optimal tax measure* focuses on funding costs by increasing taxation in terms of effects on labor supply, savings and investment because the tax system changes lead to changes in government decisions regarding the public expenditure structure. Diamond and Mirrless (1971) to address optimal taxation theory, reveal the state side to improve the allocation of public revenues in the economy. The state will provide subsidies and tax charge for impairment of real income individuals, and a reallocation of resources will be considered optimal, given that there will be a balance between growth and fiscal equity losses due to taxation. Authors take into account the same function of marginal utility of income for all individuals in society, and thus, determines *the optimal rate of taxation* based on a mathematical model whose objective function consists in maximizing social welfare, directly proportional to the change in the level of total tax revenue. Critical to this model, Atkinson and

Stiglitz (1976), stresses that taxation issues should not be separate from the allocation of revenue and be based taking into account individual preferences, therefore, tax rates should be differentiated according to this aspect. The authors argue that the alternative choice between direct taxation and indirect taxation should be based on the relationship between taxes, social efficiency and equity, both vertically and horizontally. Kaplow (2006) and Laroque (2005) extended their research to show that, under the assumptions of the Atkinson and Stiglitz, who started that all is possible, tax system could take into account only direct taxation, without resorting to distortion from indirect taxes. Milesi-Ferretti and Roubini (1998), analyzing the type of tax impact on economic growth, have shown the superiority of consumption taxes, from income taxation, by the fact that direct taxation leads to double taxation of income. Meanwhile, the two authors have shown that indirect tax payers generate influence on elections for leisure or for productive activities.

An important aspect of measuring the effects of taxation is the issue of *tax incidence*, ie how to distribute the tax burden and its impact on their work, saving, commodity price, price of inputs, resource allocation and production structure and consumption. Gruber (2005) defined the scope of taxation by which party actually supports the excess of tax burden. Distribution and transposition of taxes is a matter of economic, social, but political too, therefore, a profound analysis of these processes, makes it possible to identify the economic agents that actually will bear the full weight of tax burden, thus identifying the discrepancies and problems of the subject taxable consignee tax. Tax incidence analysis shows how both run tax burden, through prices throughout the economy, and who ultimately bear the burden, or businesses or consumers, depending on the

elasticity of substitution rate between labor and capital.

In recent years, developed *the study of tax incidence* using the *intergenerational accounts*, through which theory can describe the effects of tax policy for several generations of taxpayers. Following this methodology can estimate the amount of net taxes to be paid both the current generation and also the future generations, while highlighting how the tax burden may influence the distribution of young and middle generations to the elderly, according to Auerbach (1994).

Another tool for analyzing the effects of taxation on consumer decisions regarding work processes, production, saving or investment is *the marginal tax rate*. Feldestein (1995) highlights that some changes in marginal tax rates significantly affect taxpayers' behavior, which has an effect both on taxable income and the level of tax revenue raised from the budget. Thus, in conditions of high marginal tax rates, taxpayers will be tempted to accept forms of remuneration for their work which are not taxable, or taxed at reduced rates (facilities provided at work) or be tempted to change its structure investment portfolios, focusing on the specific assets whose income is not taxable.

Most of the effects of fiscal policy studies have shown *the effects of changes in tax rates and tax bases* on microeconomic and macroeconomic level. In this connection we mention the Kopczuk's studies (2003), based on regression functions show that the elasticity depends on *disposable income tax deductions granted*, which enables the government to influence taxpayer behavior, changing the tax base, tax and default cost .

In conclusion, taxation may contribute to development and welfare through three sources: first the tax system should raise sufficient revenue to fund public services and social transfers in high quality, second, taxation affect

economic and social decisions and should provide an incentive for greater employment and a labor efficient and sustainable use of natural resources, and thirdly, the tax system will inevitably

redistribute income, and this should be done in order to strengthen effective demand and social balance in coverage of large gaps in income distribution.

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