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PhD Thesis Summary
BUDGETARY POLICIES CONSECRATED IN THE EUROPEAN
UNION AND THEIR CONSEQUENCES FOR THE ECONOMY
OF THE ENTERPRISE

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Introduction

Key words: budgetary policies, budgetary policies for revenues, budgetary policies for expenditure, stakeholders of budgetary policies, public choice, analysis of revenues in EU 27, analysis of expenditure in EU 27, expenditure decentralization in EU 27, state aid policy for enterprises in Romania, EU 27, state aid, economic crisis, assets, loss and profit account, cash flow, financial and economic markers, models of state aid policy.

The PhD thesis entitled “**Budgetary Measures Consecrated in the European Union and Their Consequences for the Economy of the Enterprise**” wants to present the main effects of the budgetary policies on the economy of the enterprises. Its purpose is to synthesize the implications that the EU policies can have on the economy of some businesses and to understand the effects that might occur when using some instruments in the state aid policy for enterprises.

We refer to **the budgetary policy** as being the policy used when establishing monetary relations during the allotment of the GDP and in connection with the action that the state must take. Through the budgetary policy, a great segment of the GDP is included in the macroeconomic planning. The budgetary policy is a very important part in the economic policy in general. We must emphasize that the budgetary policies are very important when it comes to establishing the mechanism of resource allocation and controlling the expenses. At the same time, this policy can help stabilize the economy contributing to the economic and social development. Every country has its own system of economic and budgetary policies which best suit its needs.

The revenue policies are a part of the decisions that the state must make in order to ensure the financial resources needed to accomplish its attributions. The expenditure policy is meant to ensure that the state can control its expenditure under a certain limit that the state can afford.

The budgets of EU Member States must meet the demands imposed at the moment of their accession to the EU and they must also face the challenges occurred at the accession of new members. Regarding this issue We have taken into consideration the EU regulations regarding the state aid measures for enterprises from the EU 27 area.

This paper is aiming to:

- clarify the issues related to the economic policies
- detail the components of the budgetary policies and to identify the actors involved in this issue
- to analyze the evolution and the structure of the EU member states revenues and expenditure and to determine how these two elements are influenced by certain factors
- to realize an objective and accurate presentation of the budgets of the EU 27 member states
- to determine the implications of the budgetary policies on the economy of the enterprise

One of Romania's main concerns is to adapt the new budgetary and fiscal policies to the EU requirements. The accession process involves both costs and benefits because this process means the fulfilment of certain requirements that have great repercussions on the entire economy. The challenge is most of all in the process that makes the national economic legislation be compatible with the European requirements and in the process that refers to finding the macroeconomic political patterns which are important and relevant for the process of harmonizing the national and European policies.

In this paper we try to synthesize the implications and aspects that the EU budgetary policies can have on the economies of the EU countries.

In regards to the present state of knowledge, this paper relates to the main economic policies at a conceptual level, highlighting the views of prominent representatives of Romanian and foreign literature (Văcărel, Talpoș, Donath, Moșteanu, Brezeanu, Philip, Matei, Beju Gaston Jeze, Muzellec, Buchanan, Stillman, Axellroad, Rabin, Schwart). In this context, research focuses on various relevant issues studied in important papers of literature concerning the influence of budgetary policies on the economic enterprise. We consider important to remember the research carried out by the following authors: Spencer B. (1985), Brezeanu (2002), Nistor I (2004), Bătrâncea (2001) and Mederer, W. (1996). When we refer to the evolution in time of the elements that compose the budget of EU 27, we must refer to the work of these authors: Tulai, C.(2007), Hoanță N. (2000), Văcărel I. (2002, 2003), Filip, Gh. (2003), Matei Gh. (1998), Axellroad D.,(1995), Buchanan J. (1970).

The issues regarding the implications of the new approaches to budgetary policies on economic developments are studied by several authors, among which we can mention Mueller

(1976), Vaubel (1986), Musgrave (1984), Donath L., Slavin M., Micloș (2009), Donath L. (2007), Făt C.M. (2007), McNutt (1996), Tiebout (1990) who are trying to explain the decision making process, its complexity arising from the multiple regulatory processes which are characteristic, the status of participants and the objectives of the participants. Some issues were also raised by A. Wildavsky, (2001), Rubin (1997), Gentry (1989), Meyers (2001), Giakanis, Gerasimos (1999) in regards to elements of reform and to the new budgetary system which is more efficient in budget setting.

Some authors, mentioned below, have contributed to the analysis of the impact of the budget policies on the economy of the enterprise: Kirschen, Morissens (1989), Leahy, Neary (1996), Lee Walker, (1996), Neven, Seabright (1995), Nistor(2004), Brezeanu (2004), Patroi(2005), Stancu I.(1996), Welling (1992), Brander Spencer (1985).

OBJECTIVES: In this research we highlighted the main budgetary policies consecrated in the European Union and the way in which they affect the enterprise economy.

First of all we have identified **the main** economic policy in the European Union then we thoroughly identified the budgetary policies in the EU 27 and in the member states. The economic policy of each state is directly influenced by the development of major budgetary components (the revenues and expenditure) of each state.

Starting from these premises, **the other objectives** we tried to highlight are:

- The study of the main developments and trends in revenues and expenditures in the EU 27 and in the member states, focusing on the determinant factors of these changes. Particular attention is paid to the position held by Romania in relation to other European Union Member States.
- The presentation of some significant issues related to characteristics of the economies of the member states, the tax system in the European Union, the *acquis communautaire*, focusing on countries with special developments regarding the revenue or expenditure and the special characteristics of the budgetary policies of European Union. In order to analyze the evolution and the level of revenue and expenditure in every member state on various budgetary components, we used existing data on Eurostat, then we processed the data by using various relevant indices.

- The identification of some key factors that led to the modification of components in the budgets of some EU states. For this purpose we have developed a statistical processing of data in order to discover the patterns that exist in the EU 27 countries and to discover the essential changes that occurred after EU accession.
- The underlying of the way in which the fiscal pressure manifests itself among the countries from the EU 27 area. For this, we have identified priorities in the allocation of budgetary resources, namely the categories of expenditure that have the highest level in the budgets of the 27 countries analyzed
- To determine how budget policy affects the economy of the enterprise. In this direction, we follow the way in which subsidies are allocated in Romania and in the rest of the EU countries, but especially to what extent the main economic sectors are affected by the policy of state aid used by each state.
- The identification of the ways in which the state aid policy is affecting the patrimony of each enterprise. Thus we have analyzed how this patrimony is with and without the subsidies granted by the state. We should also remember that the main effects of budgetary policies on the enterprise economy have been identified through the analysis of the profit and loss accounts of the 11 main contributing companies from Romania.

RESEARCH METHODOLOGY. The analysis of the major trends in European Union countries' budgets and subsidies granted to EU countries was conducted using data extracted from Eurostat and the Competition Council. We calculated: fixed-base indices, index-based chain, minimum, maximum, average, and the share of GDP. In order to analyze the main correlations made when we performed the study of the EU27 budgets, we used SPSS. State aid policy influences on the economy of the enterprise have been identified by using data provided by the Ministry of Public Finance (NAFA).

STRUCTURE OF THE THESIS. This PhD thesis is structured in five chapters dealing in detail with: the concept of budget policy and its influence on the economy, the analysis of the budgets of the member states of the European Union and the effects budgetary policies have on various sectors of the economy and particularly on the enterprise economy.

CHAPTER 1: CONCEPTUAL APPROACHES ON THE COMPONENTS OF THE BUDGETARY POLICIES

The first chapter addresses theoretical issues related to some components of the economic policy, presenting in detail the **components of budgetary policies**. The study addresses at a conceptual level the main economic policies addressed in the Romanian and the foreign literature. The elements studied refer to political concepts, economic policy, financial policy, monetary policy, fiscal policy, budgetary policy of revenue and expenditure budget policy. In this chapter we have presented in detail the revenue budget policy, the expenditure of budget policy and the budgetary balance. We have identified the stakeholders involved in the development of budgetary policies, and we have also defined the place and role of different types of participants involved in the conception of the budgetary policies.

The relevant aspects presented in this chapter are:

- the budgetary policy is dependent on the behaviour of political and administrative institutions;
- the budgetary policy can be seen as a process that shows where, when and by whom resources are allocated as efficiently as possible;
- we identified the budget components as being the main instrument of budgetary policy;
- Budgetary policy is circumscribed to the financial policy, which in turn is circumscribed to the economic policy;
- the policy of budgetary revenues has two components: tax revenue policy (fiscal policy) and non-fiscal revenue policy, tax policy is all composed by fiscal decisions that the state makes in order to ensure financial resources necessary to carry out its duties;
- Budget expenditure policy should establish the size, destination, and the optimal structure for expenditures; it also has to set the goals and to specify the methods and tools to be used, with minimum financial effort and maximum efficiency;
- Budget balance requires that the costs involved in public actions should be covered by ordinary budgetary revenues. This is because using the special budget revenue, regardless of the initial situation of the budget, at the end we must have a balance.

- Whether directly or indirectly, the participating actors in the implementation of budgetary policies are voters, politicians, political parties, interest groups and pressure groups and the technical apparatus of local and central public administration;

CHAPTER 2. IMPLICATIONS OF THE NEW APPROACHES REGARDING BUDGET POLICIES ON THE EVOLUTION OF ECONOMY

The second chapter details the methods of preparation and substantiation of budget policies and their role on the economy. The focus is on how public policy decisions are made with an emphasis on public choice theory and its role in the development of the budgetary policy. The new methods of making the policy decision are emphasized, with regards to the methods used especially in U.S.

Thus following a series of studies regarding the public choice, we have found that public choice is a social choice based on a collective decision and it belongs to several individuals who decide about the public property or other aspects of the social life that influence the behaviour of several groups of individuals. We detailed some elements, such as the decision making impossibility theorem, Pareto optimum, the marginal rate triple rule, the Coase theorem. We have also tried to stress out that public choice is different from private choice. The Public Choice Theory examines the behaviour of individuals who participate in making public choices or collective choices. The choices apply to all members of the community. In the case of private choice, the individual behaviour appears on an idealized market. If a person appears on the market as a buyer or seller on a fully competitive market, s/he does not influence the general behaviour of the people from the same market. We found out that there are two rules on public decisions: the unanimity rule and the majority rule. The unanimity rule requires for the public decision to be made only if all the members of the community agree. The majority rule says that a public decision is made if at least the voters agree with that rule.

We also brought into attention **the median voter model, the monopoly model and the bureaucracy model**. The median voter theory shows that the model-based decision is made on the majority vote by the median voter because it is the median voter's preference, a preference that produces the minimum loss of welfare for the whole group. The monopoly model generally claims that politicians try to implement policies they want and then they persuade the voters to adapt to them. Niskanen was the one who advanced a model of the bureaucracy that uses the

marginal utility function approach. This function includes the following components: his salary, reputation, additional gain and power.

We detailed and exemplified the allocation function, the function of stabilization and the redistribution functions. Public decisions are the result of a long transaction between public and private interests, between those who decide and those who must carry out the decisions. The decisions are made after negotiations between different parties but also with the participation of private decision makers.

Budgetary options in an economy refer mainly to the size and structure of public expenditure, the functions of redistribution, social and economic state; they usually depend on general economic policy option. Through the allocation function, some services are distributed through public authorities because they must ensure the satisfaction of social needs (culture, education, justice, national defence). Stabilization is a feature of the public sector and it develops in a special legal framework that ensures a smooth conduct of public economic transactions. The redistribution function refers to the involvement of the state in the economy by using special tools such as the adjustment of revenues or of assets obtained in economic transactions.

In states with economies in transition budgetary choices are largely influenced by the following factors:

- the lack of working capital in the economy in close relation to fixed overcapitalization, which makes any economic or political intervention made by extensive redistribution to induce undesirable pressures in the economic system and the main adverse effects are likely to be inflationary financing of social policies;
- the legacy of extensive social systems and the existence of broad categories of social subjects with low revenue;
- the absence of sufficient domestic resources mobilized in financial and banking sectors, in order to limit internal funding opportunities without inflationary effects coming from budgetary deficits;
- the existence of inadequate economic or business sectors, producing negative added value and which require financial and human effort in order for them to be restructured.

Reforming the budgetary system involves finding and applying **new and more efficient ways to establish the budget**, measures such as: Line-Item Budget, Zero Base Budget (ZBB), Performance Budgets, the budget on program and performance. The operational budget starts by

trying to group expenditure categories according to functional objectives of state institutions without taking into account specific features of each organization unit or object of expenditure (operating expenses, personnel, capital, etc.). Essentially, PPBS is a budget that is stretched over several years based on economic and programmatic assumptions, results and costs of planned resources for the past year, current year, budget year and the four subsequent years for each programme. ZBB is a designed method that focuses on the process of reallocation of resources, while maintaining the basic approach, to the top (bottom up) in the foundation of the budget. The Performance Budget method requires that any public organization (ministry, service, office, department) maximizes the production of public goods, with a given level of resources. Each of the above methods has advantages and disadvantages.

Most countries have not implemented any of these methods in their pure form but they have adapted to the needs and economic conditions that they have. Each state has its own choice when it comes to the most appropriate formulation of the budget, and what is particularly important is the effect that that method has on the economy and the advantages and disadvantages that come along with the implementation of that method or another.

In conclusion we can mention a few of the elements that were emphasized in this section, such as:

- the role of public choice in the design and implementation of budgetary policies;
- key elements related to public choice;
- identifying the rules that govern public decisions;
- modern approaches on budgetary policies;
- the role of participants involved in the implementation of budgetary policies;
- the breakdown of modern methods relating to budgetary policies and the highlight of the benefits and of the disadvantages hereof;
- highlighting new trends regarding budgetary policies

CHAPTER 3. A COMPARATIVE STUDY REGARDING THE ROMANIAN BUDGET AND THE BUDGET OF THE EU MEMBER STATES

The third chapter addresses issues related to EU budgetary policies. It aims to explore key policy components of budgetary revenues and expenditure in the period between 1999 and 2007, both in EU27 and in the main member states. In order to identify the most important characteristics of the period analyzed, the study includes two major subsections: first section is about the revenue budget policy and the second one is about the expenditure budget policy. To achieve this approach, all data collected was processed with the aim to identify various existing correlations in the EU27 in the period under review. We also conducted a quantitative analysis of the data above. Budgetary policy of revenue revealed that a high tax burden on taxpayers can mobilize important resources to the budget. We consider important to mention that in a long term a high tax burden may have adverse effects on economic growth. Both revenue and expenditure budgets presented in this paper are tackled in a systematic way, starting from their level in different countries, their variation from year to year and from the base year and the average values registered during the period studied. We also examined the share of various categories of revenue and expenditure both in total expenditure for two categories of countries: developed, and underdeveloped. Also, we intend to establish in the countries examined, which of the two budgetary components is more important. To this end, in the policy of budgetary revenues and expenditures we noticed the main trends in correlation to the major components of revenue and expenditure.

After a thorough analysis of the data, we have managed to see the evolution and structure of revenues and expenditure and the main trends of these components in the period between 1999 and 2007, underlining the main reasons that led to these trends. In order to achieve an objective analysis and accurate determination of the causes that have influenced the main elements, we extracted all the necessary data from Eurostat. These data have been processed and we have calculated the fixed base indices, the chain-based indices, minimum, maximum and average, share of total and share of GDP for both expenditure and revenues. We also made a statistical processing of the data mentioned above. The quantitative analysis of the data certifies the findings after the usual processing of data and identifies the existing models.

The most important aspects related to the **revenues** are:

- the **highest revenue** is achieved in developed countries such as Germany, Britain, France Italy,
- the **lowest revenues** are recorded in **developing countries**, reduced in size and population, such as **Malta, Cyprus, Estonia**.
- in our opinion, the main causes of a low revenue are: the small number of inhabitants, the area on which the country extends its borders and that these countries have recently joined the European Union.
- we also found a **slow pace of the revenue growth in developed countries**, the old EU countries, due to the fact that investments made in these countries were lower as compared to the new countries that joined the EU recently. If we compare Romania with Bulgaria, countries that joined in the same year the European Union, it is easy to notice that the maximum total revenue recorded in Romania has a value exceeding three times the maximum value registered in Bulgaria in 2007. On the other hand, it is important to mention that the peak recorded in Romania represents about 0.6% of the maximum of EU 27. In the structure of Romania's budget revenues, the largest share in the revenue budget is represented by social contributions and VAT, this situation is not very different from the EU.
- from the calculations performed, we identified a weighted average of GDP total tax of 18.02% against a weighted average of GDP from EU 27 of 25.4%. Countries that have a GDP share similar to the one in Romania are: Slovakia, Poland and Czech Republic. The total average tax recorded in Romania in the period under review is 0.7% of total taxes recorded in the EU27. Countries that have values close to those recorded by Romania in total taxes are: Luxembourg, Slovenia and Slovakia. The lowest tax burden in the EU calculated from the total amount of taxes, is recorded in Romania (17.3% in 2006), followed by Latvia (with an average of 19.5% in the period under review), Czech Republic (with an average of 20, 1% in the period under review), Poland (with an average of 20.2% in the period under review), Lithuania (with an average of 20.5% in the period under review). One of the reasons for which the tax burden in new countries is lower than that in other EU countries is because the lower tax rates on personal income and on the income of newly founded companies can attract major investments in the area. Romania almost tripled its proceeds from the tax on profits of companies in the period under review. Regarding the share of the total revenue from these social contributions, this reaches 29.04% at EU level, while the tax burden carried by them is 12.93%.

• in the **Northern** countries we encountered the **highest recorded direct taxes**. In regards to the indirect tax, the situation is quite the opposite, Finland, accounting for example for the minimum weights of the total indirect tax revenue. Maximum weights of the total indirect tax revenue is recorded in Bulgaria and in other former communist countries such as Romania, Hungary, Poland, Slovakia and other countries, such as: Ireland, Portugal, Lithuania, appear very high weights.

In order to understand in detail the various influences on all components of revenue, we performed the statistical processing of data, equivalent to a quantitative treatment based on the underlying variables that were ordinal or nominal. In order to achieve a statistical processing we have chosen a number of factors such as population, production index and gross domestic product (GDP).

The first factor was the population, which can influence a lot the total amount of revenue. It is important to note that, based on Pearson Correlation, the population strongly influences the total revenue, and it has a significant correlation. In order for this correlation to be a strong one, it is important that the amount inscribed in the table besides the line Pearson Correlation is over 0.50, and in order for this correlation to be a significant one, the amount written next to the “sig” must be 0 or very close to 0. If the production index influences a little bit the revenues from EU 27, than the GDP impact is greater on the revenues of the 27 member countries from EU. The average total tax share of the total budgetary revenue is 59.78%, 28.18% comes from social contributions and 11.69% from other revenues. We consider important to note that the **overall average tax pressure** exerted in the EU27 in the period under review was 42.5%. **The highest overall average tax pressure** was recorded in the **Northern countries**, where it reached almost **50%** and the **lowest was recorded in Romania, Lithuania and Latvia**, with values around **30%**. The tax burden was influenced by the individuals’ income tax rates, the rate of income tax, reducing or increasing the tax base and the change in GDP. In developing countries the tax burden is low because they are trying to stimulate economic development and to attract investments, to increase employment and labour productivity, while in developed countries taxes are higher.

When it comes to expenditure, the trends are similar to those encountered in the revenues; expenditure is higher in developed countries and lower in developing countries. The 27 countries examined can be classified according to different criteria: criteria values in absolute and the

percentage growth criterion value in a base year. When referring to the criterion of absolute amounts that are spent in the countries we can say that they can be grouped into three categories. The first category is that of countries with high expenditure, and here we can include Germany, Italy, Great Britain, France and Spain and in some cases the Netherlands. If we consider the criterion of percentage growth value in a base year, 1999 being the base year in this case, we can also have three categories of countries. The first category includes the countries where costs, whether total or partial (we refer here to expenditure by category according to the COFOG classification system) increased over the past nine years more than twice. In this category we include only the Czech Republic, where expenditure has increased 2.13 times. On the other hand, if we take into consideration partial expenditure then we have in this category more countries such as: the Greek Republic where expenditure for public order and safety increased 3.15 times, in Estonia, expenditure for economic affairs has increased by 2.90 times. The trend mentioned above is maintained for all other types of expenditure. In the second category, according to the criteria for qualification we can include countries where the expenditure has increased by over 20% in the nine years that we analyzed. In this category there are countries such as Ireland, Spain and Belgium, the Netherlands, the United Kingdom and Finland. The third category includes countries where expenditure costs increased by less than 20% or even decreased. If we take into consideration the total expenditure amount we will have a category that includes: Germany with an increase of 9% and Sweden with a 14% increase.

Romania's total expenditure has the following distribution: **54.38% in the state budget, local budgets have 17.31% and 25.85% goes in the social funds budget.** The average of the total amount spent from the state budget in Romania between 1999 and 2007 is 15,719.6 million in local budgets 6110.9 million and the Social Fund of 7345.5 million.

The highest absolute expenditure amounts made from the state budget in the period under review, are those concerning: economic affairs with an average of 3.424 million Euro, the general public services with an average of 1.926 million Euro, the public health department with an average of 1.637 million Euro, social protection with an average of 1584.5 million Euro, public order with an average of 1.305 million Euro, education with an average of 1.077 million Euro, followed by those expenditures used for the comfort of the public housing, leisure time, religion, culture, and environment.

In this chapter we also conducted a **review of EU 27 spending decentralization** on the main types of expenditure that were made in the period 1999-2007, a subject less written about in the specialized literature. We found that the most decentralized expenditure categories incurred in the Northern countries (Denmark, Finland), and the most centralized in Cyprus and Belgium, while Romania is between those two extremes.

The most decentralized expenditure on general public services is recorded in Hungary (99.84) and England (50%). The level of expenditure on public services in Romania is placed at an average of 19.40% of the total expenditure in the period under review.

The expenditures used for the national defence, in most countries analyzed, are directed by the central government budget. In Romania, for example, the average of these weights is of 99.94%. The most decentralized expenditure on public order and security are registered in England, Belgium, Hungary and the Netherlands. Therefore we can see that in most EU 27 countries, the expenditure on defence and public order is generally centralized.

Countries with the highest share of expenditure on economic affairs are located in the local budgets from Poland (with an average weight of 43%), Denmark (with an average of 41.4%), Italy (average of 53.4%) while in Romania this proportion was of 21.2%. Data on health expenditure in local budgets of the 27 EU countries shows that the most decentralized health expenditure is recorded in the Northern countries. Developed countries record the highest expenditure both overall and in part, but in these countries growth is lower than that in the less developed countries like the ones who recently joined the European Union, where the dynamics of these expenditure categories is very strong.

The smallest proportion of education expenditure in the central budget is recorded in countries such as: Greece under 3.5% between 1999 and 2007, 9% in Portugal in the period under review. We can say that Romania has a high degree of decentralization regarding the education system and that is shown by the weight that this expenditure has in the local budget which is a bit over 50%, if we compare it to the state budget.

In terms of share of the ten chapters of expenditure of local budgets from the total budget per country, Denmark records the maximum share of 48.65% . Important shares are also found in Sweden over 35% in Finland over 28% in the Netherlands over 27% and Spain over 21%.

CHAPTER 4. THE RELATION BETWEEN THE BUDGETARY POLICY AND THE ECONOMY OF THE ENTERPRISE

Chapter four presents the key influences on the economy of the budgetary policy regarding the enterprises in Romania and the EU, the European regulations on state aid and the main aid granted to enterprises in the European Union.

In Romania, considerable efforts have been made in order to harmonize the legislation on state aid and a policy of reducing the state aid granted has been pursued, in order to eliminate distortions that could affect market competition.

In our opinion, budgetary policy should provide an incentive effect on taxes and charges, and it should ensure economic growth and development and real fiscal consolidation. We consider important the fact that the budgetary policy should focus on efficient budget allocation based on priorities, on multi-programme budget, on implementing a more efficient revenue collection, on the removal of relief or restructuring practices for large debtors, and on the decreasing of the share of the black economy. In addition, it should ensure transparency in public spending, and it should also ensure the multiplication effect of public spending on the real economy. In addition, we consider that state aid rules and regulations must be made in such a way so that they do not distort the free competition and the economic competitiveness.

As individuals' ability to contribute is usually higher in developed countries, they can afford to have a higher tax level as compared to developing countries. Since the level of public spending in these countries is high, this means that in order to cover those certain expenditures they need to attract significant resources to the budget.

In chapter four we highlighted the ways in which the most important economic sectors in Romania and EU27 are subsidized. Here, we address issues on how the policy to subsidize can influence the economy of a particular sector. In this chapter we present details regarding European regulations on state aid granted to the EU and to Romania. The main regulations and trends on the subsidizing policy are also presented here, along with the most important practices in the subsidizing policy.

We have also shown some elements related to the dividend policy, revenue and social contributions in Romania in the period analyzed, observing the fact that this was a fiscal relaxation period meant to attract investment in our country and to attract greater resources to the

budget by reducing tax evasion and by averting some practices that exerted or that rescheduled the debt of some large debtors.

We have also made an analysis of the volume, structure and trends in the **state aid policy in Romania from 2000 to 2006**. We presented the impact of this policy on certain sectors of the economy and especially on the state budget.

The following economic sectors were taken into account in the research concerning the Romanian economy between 2000 and 2006: manufacturing, agriculture and fisheries, the mining industry and the human resources sector. Within each sector mentioned above we studied the main objectives, the financial instruments used and the main trends concerning state aid.

In the period between 2000 -2006 it has been shown that the highest intensity of the state aid in Romania was registered in 2001, following the intensification of reform and of the privatization process, after which we noted a tendency to decrease with the exception of 2004 when the state aid is booming again, compared to the previous year. The state aid trend to decrease from the GDP recorded in recent years, shows Romania's efforts to enforce the regulations concerning this matter, to use a certain economic approach in order to eliminate biases that may occur on the market..

This decrease of subsidization for the state enterprise sector was mainly **due to a high restructuring and privatization process of major state owned companies** in that period (Sidex, Plain Wire Industry Câmpia Turzii, Roman Tractorul, Dacia).

If we take into consideration the state aid granted in the European Union, it must be emphasized that the most important ones have been directed to the transport sector, followed by the mining sector, manufacturing, construction and agriculture sectors.

We offered some further details and examples of models that show on the one hand the economic effects of state aid on the industry and a class of theories that relate to the effects of competition between governments to attract investment: strategic trade policy models, Tiebout models, models of the new economy.

To summarize the general idea of the three models on the effect of the state aid on the economy, we could say that the first model excludes any form of competition; the second model is based on the differences between firms in terms of economic decisions, as a prerequisite to trigger a competition between communities which compete for them. The third model is based on differences and assumptions between different communities (competition) which leads to the

economic decisions of firms to develop or not an economic activity in that area. The analytical theories we shall refer to, in the text below are: **1. The Besley & Seabright Theories, 2. The Theories of competition between governments 3. The Theories of Government Failure.**

They start from the premise that not only externalities are the main cause for the competition between governments in order to attract firms to certain locations, but there is also the lack of continuity in government decisions that are meant to maintain and enforce a particular fiscal policy or the inability to shape policies.

We took into consideration **two methods of calculating the current level of taxation** for a standard investment project that is composed from: EATR (Effective Average Tax) and the EMTR (Effective Marginal Tax Rate)

Analyzing the trade and the aid (as a percentage of GDP) in the EU 27 member states for the period 2000-2007 we can see that an average of 0.2% from GDP has been recorded. The most important sector from the EU 27 and from Romania that has received subsidies is the transport sector.

We also presented aspects on the dividend policy and aspects related to the revenue and social contributions in Romania in the period under review. In terms of revenue policy it should be mentioned that, in the period under review, the income tax policy pursued was one of fiscal relaxation. Given that the level of public expenditure in developed countries is high; their coverage requires attracting significant budgetary resources. Developed countries can afford to have a higher level of taxation than the one in developing countries as the individuals' ability to contribute is higher than in other countries.

We also presented the measures taken by major countries in the EU 27 in order to reduce the effects of the crisis. We noticed a general trend for most member states regarding measures taken in order to support the banking sector, with the final goal in most member states to ensure liquidity and especially to ease procedures involved in contracting a credit. A number of states have taken steps to reduce budget expenditures (Romania, Spain, Portugal, Latvia) with public sector staff, others have taken measures to increase taxation (Greece, Latvia) to support budget expenditures with government guarantees. Actions were taken with a social impact aimed at stimulating jobs and encouraging investments (Portugal, England).

CHAPTER 5. THE EFFECT OF BUDGETARY POLICIES ON THE ECONOMY AND METHODS OF QUANTIFYING THESE EFFECTS

Chapter five studies the effect of budget revenue and expenditure policy on the economy of the enterprise. The most important role of fiscal policy is to examine in detail how the revenue tax on the company can affect the enterprise economy. To this end, we have analyzed the effect of income tax rate change, and more precisely, the effect produced by passing the flat tax in 11 companies which have had the highest profits in 2004 and 2005. The analysis was focused on the effect produced on: balance sheet, profit and loss, cash flow and on economic and financial indicators of business. Also, an interesting feature of our approach was to see how the 11 companies that we analyzed used the economy resulted from reducing the tax rate to 16%.

Thus, we found that the companies that have made a gross profit relatively constant over the previous year (Romtelecom, Vodafone, Romgaz) had a significant increase in their net profit only as a result of the reduction of the income tax rate. Of course, we found the same effect on all companies analyzed, although in the other companies we saw some significant changes in the gross profit. These changes were either the decrease in the gross profit (Lafarge, Transgaz), decrease which was seen mostly in the net revenue or due to the reduction in corporate tax rate (gross profit decreased in Lafarge by 32 million lei while the net profit fell with only 12 million lei or in the case of Transgaz where the gross profit decreased by 69 million lei, while the net with 40 million lei) or, especially, the changes were in the sense of the increase of the gross profit, which in conjunction with the reduction of the tax rates produced a faster growth of the net profit.

In terms of economic and financial indicators we have seen that in 6 out of the 11 cases analyzed, these indicators increased significantly, which made it possible, overall, that the **solvency** records a **0.6 % increase** (from 69.0% to 69.6%), while at the level of solvency, it triggered a 0.25% increase, approximately. At the same time, **the overall debt burden was reduced by 3.2%** (from 28.2% to 27.3%), and the decrease in the profit tax contributed to this reduction with 0.8%.

Should we refer to the way of valuing the economy resulted from the reduction in the taxation rate on profit for the witness group we analyzed, we noted two situations: respectively, **valuation to the benefit of the enterprise (9 cases) and to the benefit of shareholders (2**

cases). Thus, in the companies with profit, a modification of the profit taxation rate in the sense that it had been reduced by 9% triggered an increase in their equity by 2.5%. Overall, on the basis of an increase in their own equity levels, we noted **an increase both in the value of fixed assets (+1.5% investments) and in working assets (+2.6%) and a debt decrease**. Thus, we could claim that, in the case of enterprises analyzed, a reduced profit taxation rate constituted a finance source for the real economy, playing the role of an incentive for the economy.

The analysis of the effects of the budgetary policy of expenditure on the enterprise shapes the models of the subsidization policy for the economy of the enterprise from the perspective of the main instruments of the subsidization policy.

We also analyzed the instruments used in the subsidization policy (subsidies, grants, interest rates subsidized; fiscal duty exemption and fiscal duty reduction; capital participation from the part of the state; interest rate exemption for budgetary loans; exemptions and reductions in the overdue payment penalties and related penalties; granting state aid) at the level of the enterprise by looking into influences on three different pillars, such as balance sheet, loss and gain account and economic and financial indicators. The influence of subsidies on the three aforementioned focal points is considered during the base year, the implementation year, as well as for the 5 following years. With a view to create a mock exercise of all aspects related to abovementioned elements, we performed a mock exercise at the level of the enterprise in order to record the influence on the balance sheet, the loss and gain account, as well as on the economic and financial indicators (current clearance, solvency of patrimony, net profit rate, overall debt burden). The case study focuses both on the situation where subsidies are granted, and on the situation when subsidies are not granted, underlining the main effects on the elements comprised in the balance sheet, as well as on the increase, decrease or constant level of the economic and financial indicators.

We must mention the fact that the follow-up and the study of trends in the case of the main components of revenues and expenditures in the budgets of the 27 EU Member States and the assessment of the relations between budgetary policies and the economy of the enterprise qualified for an interesting but equally difficult endeavour, having a decisive role expressed thorough the process of resource allocation, as well as that of expenditure control and the one regarding the re-assessment of policies implemented at the level of EU 27.

CONCLUSIONS

This PhD thesis presents both the theoretical and the practical aspects of the budgetary policies from EU from 27 countries, and how they may affect the economy of the enterprise. To achieve this, we approached all economic policies, with an emphasis on the budgetary policies and their components. It should be pointed out that **the budgetary policy** is seen as being the policy used when establishing monetary relations during the allotment of the GDP and in connection to the action that the state must take. We also mentioned the main instruments of the fiscal policy and the main stakeholders involved in drafting these policies.

In the first chapter we detailed the revenue budget policy, the expenditure budget policy and the budgetary balance. We identified the stakeholders in the development of the budgetary policy, and we emphasized the role of different types of participants in the budgetary policy.

The second chapter emphasizes the issue of public choice, its modern approach and the emerging trends in budgetary policies. We also highlighted the role of the Public choice theory in the economy. We have shown here new methods of setting budgets. We focused on details such as the decision making impossibility theorem, the Pareto optimum, the marginal rate triple rule and the Coase theorem. We also brought into attention the median voter model, the monopoly and bureaucracy model. We studied and exemplified the allocation function, the function of stabilization and the redistribution of functions.

We can say that the following elements were underlined here:

- the role of public choice in the design and implementation of budgetary policies;
- the key elements related to public choice;
- the rules governing public decisions;
- the modern approaches regarding budgetary policies;
- the role of participants involved in the implementation of budgetary policies;
- the modern methods relating to budgetary policies and the highlights of advantages and disadvantages hereof;
- the new trends in budgetary policies.

The third chapter highlights the revenue budget policy and the expenditure budget policy. Following the analysis of the data, we have shown the evolution and structure of revenues and expenditure and the main trends of these components in the period 1999 - 2007 in both the EU27

and in the main member states underlining the main reasons that led to these trends. In order to achieve an objective analysis and determine how accurately the causes that have influenced the main points are, we extracted all necessary information from Eurostat. These data have been processed and we have calculated the indices with fixed base, chain-based indices, minimum, maximum, average, share of total and share of GDP for both expenditure and revenue. We also made the statistical processing of the data above. The quantitative analysis of the data comes to certify its findings after the usual processing of data and to identify existing patterns.

The most important aspects of revenue are:

- the highest revenue is made in developed countries such as Germany, England, France, Italy
- the lowest revenue is recorded in developing countries, reduced in size and population, like Malta, Cyprus, Estonia.
- in our opinion the main causes of a low revenue are: the small number of inhabitants, the area on which the country extends its borders and that these countries have recently joined the European Union
- We also found a **slow pace of the revenue growth in developed countries**, the old EU countries, due to the fact that investments made in these countries were lower in comparison with the new countries that joined recently.
- the largest share in the revenue budget is represented by the social contributions and VAT, this situation is not very different from the EU.
- in **the Northern** countries we encountered the **highest recorded direct taxes**. With regards to indirect taxes the situation is quite the opposite, Finland, accounting for example for the minimum weights of the total indirect tax revenue.
- maximum weights of the total indirect tax revenue is recorded in Bulgaria, and in other former communist countries such as Romania, Hungary, Poland, Slovakia and other countries such as: Ireland, Portugal, Lithuania, appear very high weights.
- the **overall average tax pressure** exerted on the EU27 in the period under review was of 42.5%. **The highest overall average tax pressure** was recorded in the **Northern countries** where it reached almost **50%** and the **lowest was recorded in Romania, Lithuania and Latvia** with values of around **30%**

When it comes to expenditure, trends are similar to those encountered in the case of revenues; expenditure is higher in developed countries and lower in developing countries. We also conducted a review of EU 27 expenditure decentralization on the main types of expenditure in the period 1999-2007. We found that the decentralized expenditure categories incurred in Northern countries (Denmark, Finland), and the most centralized in Cyprus and Belgium, while Romania is between those two extremes.

In chapter four we highlighted the ways in which the most important economic sectors in Romania and EU27 are subsidized. Here, we address issues on how the subsidizing policy can influence the economy of a particular sector. In this chapter we presented details regarding European regulations on state aid granted to the EU and to Romania. The main regulations and trends on the subsidizing policy are also presented here, along with the most important practices in the subsidizing policy.

We consider important to highlight the following aspects:

- we analyzed the volume, structure and trends in state aid in Romania.
- the impact of state aid on certain sectors of the economy and especially on the state budget
- the highest intensity of state aid in Romania was registered in 2001, following the intensification of reform and of the privatization process
- some trend of the decrease in the amount of state aid in GDP was recorded in recent years, Romania's effort shows law enforcement matters
- we listed a number of models that show the economic effects that state aid has on industry and we mentioned a series of theories that refer to the effects of the competition between governments in order to attract investors
- we took into consideration **two methods of calculating the current level of taxation** for a standard investment project that is composed from: EATR (Effective Average Tax) and the EMTR (Effective Marginal Tax Rate)
- the aspects concerning the dividend policy, revenue and social contributions in Romania in the period under review
- we also presented the measures taken by major countries in the EU 27 in order to mitigate the effects of the crisis (banking sector support, ensuring liquidity, measures to reduce budget spending, encouraging investments)

The last chapter emphasizes the effect of budget revenue and expenditure policy on the economy of the enterprise. The most important role of fiscal policy is to examine in detail how the income tax on the company can affect the enterprise economy. To this end, we have analyzed the effect of income tax rate change, and more precisely, the effect produced by passing the flat tax in 11 companies which had the highest profits in 2004 and 2005. The analysis was oriented on the effect produced on: balance sheet, profit and loss account, cash flow and on the economic and financial indicators of the business. A study was made to identify the main patterns used in subsidizing the economy of the enterprises, in light of the main policy instruments used for subsidies, and it was shown that these influences were felt on three levels, the balance sheet, the profit and loss account and the economic and financial indicators.

The most important results obtained from the abovementioned analyses are as follows:

- we noted a **significant increase in the net profit**, as sole effect of a reduction in the profit tax rate
- in 6 out of the total 11 enterprises analyzed, the economic and financial indicators improved significantly
- **solvency sees an increase by 0.6%** and the **overall debt burden is reduced by 3,2%**
- we noted two situations regarding the way of valuing the economy resulted as a consequence of a reduction in the profit taxation rate in our witness group, respectively: **valuation to the benefit of the enterprise** (9 cases) and **to the benefit of shareholders** (2 cases)
- on the basis of an increase in their own equity, we noted **an increase both in the value of fixed assets (+1.5% investments)** and in that of **working assets (+2.6%)** and a decreased level of debt
- the reduction of the profit tax rate constituted a source of finance for the real economy in the case of the analyzed enterprises, playing a role of incentive on the economy
- we assessed the main influences of subsidies on the three levels, in the base year, the year of implementation and the 5 following years
- we performed a mock exercise at the level of the enterprise in order to see the influence on the balance sheet, the loss and gain account and the economic and financial indicators

- we indicated those situations in which subsidies may be granted and the situations in which subsidies are not granted, underlining the main effects on the elements comprised in the balance sheet, as well as those situations in which the economic and financial indicators improve, worsen or stagnate.

The follow-up and the study of trends in the case of the main components of revenues and expenditures in the budgets of the 27 EU Member States and the assessment of relations between budgetary policies and the economy of the enterprise qualified for an interesting but equally difficult endeavour, having a decisive role expressed thorough the process of resource allocation, as well as that of expenditure control and the one regarding the re-assessment of policies implemented at the level of EU 27.

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