

FISCAL POLICIES – AN INFLUENCING FACTOR IN THE LABOUR MARKET UNDER THE EUROPE 2020 STRATEGY

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Abstract

Workforce Occupancy in the real economy and implicitly, policies governing this macroeconomic phenomenon, were considered both at a declarative and factual level, as a priority on the agenda of all decision makers both national and European, continuous efforts being made to harmonize employment policies of the Member States in the European Union.

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JEL Classification: E, E6, E62

1. INTRODUCTION

In a broader sense, the labour market includes a number of issues related to employment, unemployment, quality of work, productivity, earnings and labour cost. This places the labour market among the most important topics to be included in any debate on socio-economic problems and also among European Union policies. Thus, the Europe 2020 Strategy has as the prime indicator the population employment rate. In this regard, the EES (European Employment Strategy) aims to create more and better jobs in the European Union.¹

Considering these European strategies, each member state must develop its *National Employment Strategy* and *National Action Plan on Employment*, both realistic and strongly harmonized at EU level. Each of the pillars of the national strategy converge with the objectives of the European Employment Strategy and they are adapted to specific situations.

2. EUROPEAN LABOUR MARKET TRENDS

In the European Union there are now serious concerns, both economic and social, related to increasing the employment rate. In this respect, it is considered that there are still large reserves to maintain the population in economic activities for a longer period of time. This would have beneficial effects both in terms of increased production and labour incomes for the population, and in relieving the national and community budgets

¹ Albu L.L., Caraiani P., Iordan M., *Perspectivile pieței muncii din România în contextul Strategiei Europa 2020, PROIECT Îmbunătățirea capacității instituționale, de evaluare și formulare de politici macroeconomice în domeniul convergenței economice cu Uniunea Europeană a Comisiei Naționale de Prognoză*, cod SMIS 27153.

of additional expenses on pensions, insurance and social assistance.²

In this context, European policymakers have developed the *European Employment Strategy*, a document that covers a number of priority areas on Employment Policy, among which: labour law, equal opportunities, social protection, labour protection, eliminating social exclusion, combating discrimination and creating a functioning social dialogue system to ensure consultation with social partners in decision-making with social and economic impact at both national and European level.

Employment policy at EU level is an integral part of the set of complementary policies that have continuously evolved together with models of socio-economic development.

The European Social Fund is the first that aims to provide support for the realization of social and employment policy. Thus we can see how the evolution of the development of Member States has resulted in the completion of several stages of maturation that culminated with the creation of a model known as the *European Social Model* based on growth and social protection.

The changes that have occurred in the Member States were characterized by an increase in labour demand that affected the general economic interest. Together with amending the monetary system and the oil shock which determined the reduction of activities in different sectors of the European economy, comes into play *The Scandinavian Social Protection Model* for those who lose their jobs as a result of increased long-term unemployment and reduced number of new jobs.

The state's role in the employment policy increases by introducing active measures to encourage those that retain or create jobs in recession periods and by introducing a series of softer measures such as the gradual closure of certain economic sectors due to serious increase in unemployment, particularly in mono- industrial regions.

The 2000 Lisbon European Council set the strategic goal for 2010 - making the EU the most competitive and dynamic knowledge-based economy, providing an increased number of jobs and social cohesion (*growth, stability, cohesion*).

The 2000 Lisbon Strategy aimed to stimulate reforms in the Member States to create new jobs needed in the labour market, through promoting a culture of entrepreneurship and SME development, supported by lifelong learning.³

But the situation worsened during the global crisis which has seriously affected EU countries. Thus, it was concluded that in Europe it is necessary to rethink how to address the problem of economic inactivity of the population.

In late 2010, it turned out that the objective of the European Union, moreover ambitious, to ensure active participation in the labour market of 70 % of its citizens could not be achieved. The global crisis that has affected the European economy, followed by the increasing number of unemployed, have moved European Union further

² Albu L.L., Caraiani P., Iordan M., *Perspectivile pieței muncii din România în contextul Strategiei Europa 2020, PROIECT Îmbunătățirea capacității instituționale, de evaluare și formulare de politici macroeconomice în domeniul convergenței economice cu Uniunea Europeană a Comisiei Naționale de Prognoză*, cod SMIS 27153.

³ Albu L.L., Caraiani P., Iordan M., *Perspectivile pieței muncii din România în contextul Strategiei Europa 2020, PROIECT Îmbunătățirea capacității instituționale, de evaluare și formulare de politici macroeconomice în domeniul convergenței economice cu Uniunea Europeană a Comisiei Naționale de Prognoză*, cod SMIS 27153.

away from achieving the imposed Lisbon targets. In addition, not even the goal of building the most competitive and dynamic knowledge-based economy was achieved.

The unsatisfactory dynamics of employment rate in the past decade reflects the problems faced by most European Union states in the field of employment and in ensuring a balance between supply and demand in the labour market. This happened given that, currently, approximately 16 % of Europe's population is at risk of poverty. In this context, the European Union must find ways to redirect these negative trends from the socio-economic field.⁴

According to the *Europe 2020 Strategy*, the ultimate objective is to create more jobs and to provide better living conditions. This strategy aims to ensure smart, sustainable and inclusive growth. Specifically, there are five strategic priorities, which include in the foreground increasing the employment rate of the population by at least 75 %.⁵

As one of the cornerstones of the process of economic development of the European Union, employment growth is also closely linked to other strategic objectives, in particular those regarding education, reducing poverty and social exclusion.

3. ROMANIAN LABOUR MARKET TRENDS

In Romania the process of harmonization of national legislation with the EU acquis materialized in an *Action Plan in the field of employment* accompanied by the *Program to stimulate workforce occupancy and reduce unemployment*, which actually transposes the Resolution 99/312 / EC on guidelines in the field of employment.

The eight major areas of European legislation in the field of employment are transposed into Romanian legislation almost entirely and the harmonization process is continuously pursued.



Employment policies are mainly labour macro-economic policies that focus on flexible labour market, encouraging production, allocation of funds for credit granting at advantageous interest rates or other tax systems to facilitate employment.

The objective of these policies is to increase occupancy of the working population and thus to maintain the unemployment rate at a minimum possible by a number of tools

⁴ Ibidem.

⁵ Ibidem.

available to public organizations in managing the occupancy of the workforce, to the Government or to the Central Bank. Many of these instruments of employment policies are similar to the instruments of economic policy. This is understandable since promoting economic growth can generate a high level of employment and also since an active and employed population can create real prerequisites for sustainable economic growth.

The package of measures to boost employment must support the people looking for work to strengthen their individual occupancy capacity (information programs and customized career counselling, professional training and fostering individual entrepreneurship) and the legal framework on the unemployment insurance system and employment promotion.

Through the Employment of the Workforce Program, the National Employment Agency implements an integrated set of measures to stimulate employment in accordance with labour market opportunities and requirements of persons seeking a job.

- Increasing the occupancy of workforce and social inclusion;
- Facilitating the transition from unemployment to employment;
- Improving and strengthening the professional skills of persons seeking employment.

	2011	2012	2013	2014	2015
Registered unemployment – in thousands of people	461	417	400	385	365
Unemployment rate	5,12%	4,6%	4,4%	4,3%	4%

Source: National Commission for Prognosis

The main objectives of the Employment of the Workforce Program:

- Fighting the effects of unemployment by maintaining a low level of unemployment while continuing restructuring by improving the quality of employment and job security while simultaneously creating opportunities for training adapted to the labour market requirements;
- The social inclusion of vulnerable groups in the labour market by ensuring equal opportunities in the labour market;
- Linking training needs of the workforce to labour market requirements;
- Providing free information and counselling to people looking for a job;
- Stimulating re-employment by granting allowances for the unemployed who get a job before the expiry of unemployment;
- Boosting labour mobility

Measures of the Employment of the Workforce:

- organizing training courses for people looking for a job;
- granting free consultancy and assistance to start self-employment or starting a business;
- providing subsidies to employers to hire disadvantaged categories or to people with a more difficult access to the labor market;

	2011	2012	2013	2014	2015
The average gross salary - lei	2.026	2.162	2.285	2.380	2.478
The average net salary - lei	1.478	1.572	1.660	1.727	1.797
Real earnings	0,5%	3,3%	2,6%	1,2%	1,6%
Tax burden on salary income	43,3%	43,5%	43,5%	43,2%	43,2%

Source: National Commission for Prognosis

Thus employment in the real economy will increase or decrease in line with the economic growth rate. Anyway, even if employment policies have an indirect influence, they must be regarded as having the strongest influence on employment.



4. FISCAL POLICIES⁶ – AN INFLUENCING FACTOR OF THE EMPLOYMENT RATE

Fiscal policy aims at maintaining a high efficiency of financial resources to ensure the effectiveness of Consolidated General Government Budget (CGGB), stimulating economic activity and employment by promoting tax equity and social protection.

Richard Musgrave has identified three inter-related and correlated with the state role functions of tax policy in the economy: allocation, distribution and stabilization.⁷

The Allocation role of *fiscal policy* involves government intervention using taxes to correct market imperfections.

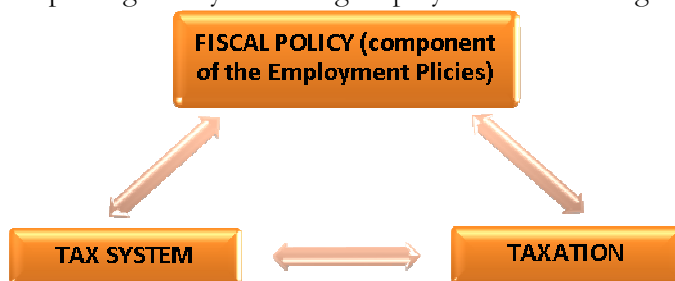
The Distribution role of *fiscal policy* is rooted in the existence of inequalities in income distribution and aims: *efficiency* by encouraging all taxpayers to produce results, equity in payment; *solidarity* to help those in need; economic growth by encouraging the obtaining

⁶ *Politica fiscală* presupune ansamblul obiectivelor, măsurilor, tehnicilor și instrumentelor reglementate juridic privind sistemul fiscal în complexitatea sa (sistemul de impozite și taxe; mecanismul fiscal și aparatul fiscal). Moșteanu, N.R., *Fiscalitate*, Editura Universitară, București, 2008, pag.517.

⁷ Moșteanu, N.R., *Fiscalitate*, Editura Universitară, București, 2008, pag. 519, Musgrave, R.A., Musgrave, P.B., *Public finance in theory and practice*, McGrawHill Book, New York, 1984, pag.6-21.

of profit and increase of the Gross Domestic Product (GDP).⁸

The role of fiscal policy to stabilize economic life is dependent on the budgetary policy and the regional development policy, meaning that the state budget, in Romania is scheduled so that over 90 % of all public funds are made up of income from tax on the one hand and on the other hand, some fiscal incentives are taken into account to stimulate underdeveloped regions by increasing employment in these regions.⁹



We believe that the role of fiscal policy is to ensure: social protection, a high level of employment and an enabling a proper environment for sustainable economic growth.

In the context presented, we hold that the main objectives of fiscal policy linked to major employment policies are:

- fiscal resources to increase efficiency by creating a tax system appropriate for the financial policy and the general policy, without affecting the employment of workforce;
- carrying out the redistribution of Gross National Product (GNP), on the basis of equity, thereby facilitating access of the active population to the labour market;
- regulate economic and social processes, based on the objectives of the financial policy and the general policy.

Also, it is preferable that the tax system ensures social equity, but avoid total egalitarianism, which causes negative effects in terms of labour productivity. In relation to these requirements, the distribution of tax burdens must consider the capacity of the various categories of taxpayers, expressed by the amount of revenue they may have and preferably encouraging the efforts to invest, produce and save, as prerequisites of social development.

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The Fiscal Policy of the European Union is represented by the legislation and the actions of the EU authorities to unitary regulate taxes in the European Union.

The Fiscal Policy is narrowed down to the way the financial resources representing the EU budget are obtained and spent. The multi-criterion substantiation of the contributions of each country to the EU budget is a topical issue.¹⁰

In a comprehensive sense, *fiscal policy* aims at the actions taken so far *jointly* by the Member States by respecting firmly the unanimity in order to influence SFN, reducing

⁸ Moşteanu, N.R., *Fiscalitate*, Editura Universitară, Bucureşti, 2008, pag.520.

⁹ Ibidem, pag.520.

¹⁰ Tomi A.R., *Aprofundarea armonizării fiscale în Uniunea Europeană - avantaje și limite*, Romanian Statistical Review nr. 4 / 2011

roughness between them in order to achieve, over time, the goals of the art. 2 of the Treaty and to establish the Single Market, namely its proper operation.¹¹

Briefly, the *fiscal system* of the EU with direct influences on the labour market can be analysed on a number of levels:¹²

➤ the existence of fundamental rules in the fiscal area. The relevant provisions of the Treaty are stipulated in Articles 12, 58, 90, 91, 93, 94, 293;

➤ establishing rules of fair and accurate fiscal conduct (Code of Conduct), the mandatory exchange of information and mutual assistance in the field by national tax authorities, the Member State's commitment that the fiscal system does not harm EU competitiveness;

➤ *the joint system* of general application of the VAT (uniform taxation basis, compulsory limitation of rate between minimum and maximum thresholds, abolition of tax frontiers for intra-Community movement of goods and services, generalization of the *destination* principle, actions to reduce fraud and evasion in the field, as agreed by the VIth Directive and the later ones);

➤ establishing common rules on excise duties (mandatory excise goods, chargeability, mandatory minimum levels of excise duty, exemptions, the suspension regime, exemptions and others);

➤ actions to harmonize direct taxation through an acceptable compromise between their function as financial *leverage* and source of budget revenues.

	Romania	EA	EU
Revenues in GDP	34,3%	44,5%	44,0%
Direct taxes in GDP	11,0%	13,1%	13,1%
Indirect taxes in GDP	6,6%	11,7%	12,6%
Social and health insurance contributions in GDP	9,4%	14,4%	12,8%
Budgetary expenditure in GDP	40,8%	50,4%	50,3%

Source: National Commission for Prognosis

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Romania's *fiscal strategy* aims to boost the economic environment, investment, entrepreneurship and the occupancy of workforce, to boost public sector reforms. Also, the fiscal strategy seeks to establish a new approach to the relationship between the state and the taxpayer, based on transparency and fairness.

Fiscal consolidation measures envisaged by the authorities, during the 2011-2015 periods aimed at a new approach based on fairness and discipline by¹³:

➤ general reduction of taxation;

¹¹ Ibidem.

¹² Ibidem.

¹³ Ministerul Finanțelor Publice, *Strategia fiscal bugetară pentru perioada 2013-2015 (revised)*, www.mfinante.ro.

- broadening the tax base;
- simplifying the tax system;
- increasing budget revenue collection;
- Reducing tax evasion.

	Romania	EA	EU
The share of direct taxes in total tax revenues	22,6%	30,6%	30,4%
The share of indirect taxes in total tax revenues	45,2%	36,2%	38,6%
The share of social security contributions in total tax revenues	32,2%	33,1%	33,1%

Source: National Commission for Prognosis

At the legislative level, Romania's fiscal strategy is designed to ensure improved collection of budgetary revenue, combating tax evasion, business support and employment growth by:¹⁴

- amending the legislative framework in order to recover damages arising from tax evasion by tightening administrative sanctions;

- amend fiscal legislation by redefining crimes related to tax evasion and broadening the ANAF assignments regarding the improvement of the fight against this phenomenon;

- strengthen the financial discipline by restraining cash payments and receipts, by decreasing the maximum threshold of cash payments between economic units and restriction of cash payments made by economic units to natural persons;

- amend the legislation regarding the companies¹⁵ by introduction of the obligation of increasing the share capital when registering negative capital, and also by introduction of joint liability of the shareholders/ stock holders/ administrators transferring liability companies;

- amend insolvency legislation¹⁶, by introducing the possibility of carrying out tax inspections after the opening of insolvency proceedings, or by conditioning the declaration of voluntary insolvency by performing a tax inspection;

- Improve and simplify the legislation on rescheduling the payment of budgetary obligations for viable taxpayers who are in temporary financial distress.

Through the *fiscal policy*, with the help of financial leverage, the state can influence economic processes and can correct the economic cycle in order to eliminate economic imbalances. Thus, in periods of overload of the economy, it may take measures to slowdown the growth based on the inflationary phenomenon, and in times of depression or recession, through fiscal or budgetary allocations, leading to economic recovery.¹⁷

¹⁴ Ministerul Finanțelor Publice, *Strategia fiscal bugetară pentru perioada 2013-2015 (revizuită)*, www.mfinante.ro.

¹⁵ Legea 31/1990 privind societățile comerciale cu modificările ulterioare.

¹⁶ Legea 85/2006 privind procedura insolvenței publicată în Monitorul Oficial, Partea I, nr. 359 din 21 aprilie 2006.

¹⁷ Văcărel, I., (coord.), *Finanțe publice*, Ediția a VI-a, Editura Didactică și Pedagogică, București, 2007, pag.64.

Also through, public funds are financing different economic objectives and actions, oriented towards the development of economic branches or sub-branches in order to create new jobs.

	Romania
GDP current prices - mil lei	739.141
Budget income in GDP	34,3%
Direct taxation in GDP	11,0%
Corporate tax in GDP	2,4%
Wage tax in GDP	3,8%
Indirect tax in GDP	6,6%
Earnings and health related contributions in GDP	9,4%
Budget expenses in GDP	40,8%
Expenses for active employment measures in GDP	0,02%

Source: National Commission for Prognosis

In Romania, through the fiscal policy and the system of duties and taxes, the following objectives are pursued:

- removing imbalances: economic, monetary, foreign exchange etc., which have accompanied the transition period;
- ensuring macroeconomic stability;
- keeping under control a sustainable deficit of the master budget (to a 3% limit of GDP and its decrease) by creating a system to ensure regular public financial resources;
- ensuring a rational, equitable economic development, providing a balanced national protection of the branches, objectives and activities of interest to the state, but less of interest to economic agents, which is achieved either through redistribution through the tax system, either through budget allocations (eg. infrastructure financing from European funds);
- balanced development of areas, regions and districts of the country, either through tax policy (redistribution of tax revenues due to the State budget by amounts or allowances deducted from taxes due to the state budget to complement public funds of local budgets) or through budgetary policy (transfers, allocations from the state budget to balance local budgets in order to achieve objectives, actions, economic activities of local interest, with national impact (balancing local budgets by completing the necessary resources);
- encouraging production, services and trade in order to achieve a real economic growth (granting tax incentives or simply reducing taxation);
- Encouraging domestic and foreign investments of local and foreign economic units, through stability, consistency, simplicity, predictability in tax legislation.

5. CONCLUSIONS

As a conclusion with regard to fiscal policy as a factor influencing the employment of the workforce, we can say that the present tax system:

- promotes unequal income distribution between rich and poor amongst the active population;
- imposes by law a higher effective marginal tax rate for those with low incomes;
- penalizes work for employees with low wages and stimulates the accumulation of wealth, but not based on taxed work;
- Faces a lack of an effective deductibility regime.

In order to solve these problems that the national fiscal system is facing, the experts suggest:

- the elimination of the flat tax and introduction of a progressive taxation system;
- the reintroduction of the income globalization mechanism as it was until 2005;
- the reduction of social security contributions as a measure to increase the employment of workforce;
- Balancing the relation between labour taxation and wealth, by increasing the tax rate in the case of property taxes.

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