

IMPACT OF THE FISCAL POLICIES ON THE STANDARD OF LIVING OF THE EMPLOYEES

PhD Elena P DUREAN¹
PhD Ionel LEONIDA²

Abstract

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The concept of “quality of life” includes its most important component, the “standard of living”. Ensuring a decent standard of living depends on the level of society development quantified in the GDP and in the manner of its allocation. The impact of fiscal policy on the standard of living can be best perceived on the occupied population, which is taxed, the employees representing the most relevant category. This is supported by the figures on the proportion of employees within the total occupied population (over 50%) in 2003 amounting to 56.04%. The analysis of the income from wages in 1990 – 2005 yielded the following conclusions:

- In 1992-1994, the real gross average income decreased, while in 1994-1996 it increased. This had no influence on the proportion of wages tax collection, which increased continuously, which increased the fiscal pressure on the work;
- In 1996-2000, the real gross average income decreased dramatically due to the peak inflation of that period, which eroded all earnings;
 - In 2000-2004, the increase resumed, both of the real gross average income, and of the fiscal pressure on it;

¹ *Scientific researcher III, “Victor Slăvescu” Centre for Financial and Monetary Research, Romanian Academy.*

² *Scientific researcher III, “Victor Slăvescu” Centre for Financial and Monetary Research, Romanian Academy.*

- The lowest fiscal pressure felt by the employees was in 1998 and 1999.

This evolution shows that a fiscal relaxation was attempted in 1998 and 1999, but it was not supported by the available resources, which caused a boom of the fiscal pressure during the subsequent period.

Keywords: fiscal policy, net income, gross income, quality of life.

JEL Classification: H2

In this analysis we will show what was the impact of the different fiscal policies on the standard of living, the quantitative expression of the quality of life. The analysis will be done according to political cycles since they have a significant impact on the standard of living. Thus:

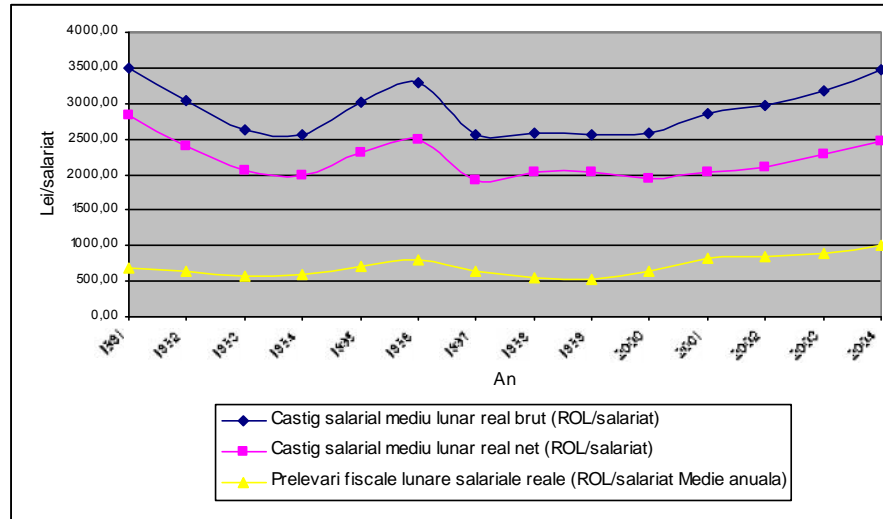
- In 1992-1996 and 2000-2004 Romania had social-democrat governments, with left orientation, whose doctrine was promoting more the social policies, with the state supporting a decent standard of living;

- In 1996-2000 and as of 2005 to the present moment, Romania had governments oriented towards the right, whose doctrine emphasizes the stimulation and promotion of the market economy, with the „laissez-faire”, not the state policies, in charge of the standard of life of the population.

The standard of living of the employees can be inferred from the average monthly earnings. In order to make a comparative analysis, we transformed the values of the average monthly earnings into real values using the index of the consumer prices compared to 1990.

Figure 1 shows this evolution.

Figure 1 Evolution of the average monthly wage (lei-ROL, constant 1990 prices)

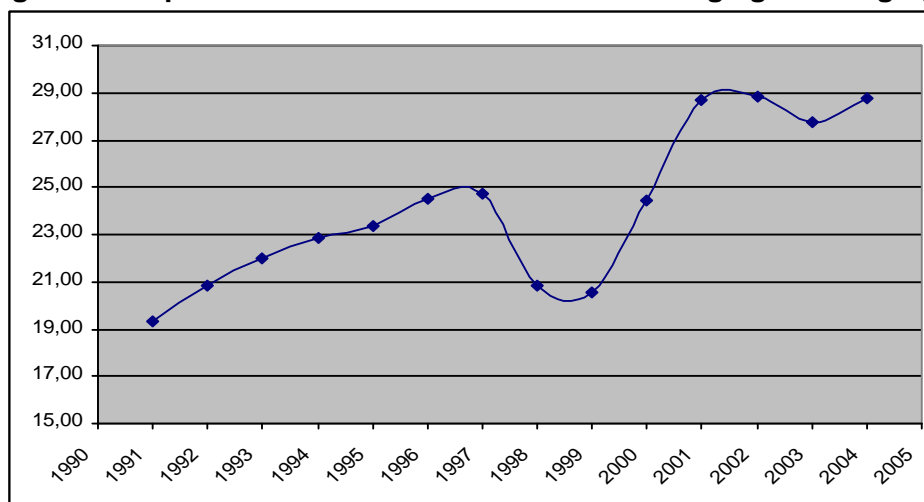


Source: Calculated by the authors using data from the National Institute of Statistics, www.insse.ro

Making an analysis by political cycles, as mentioned earlier, from Figures 1 and 2 we may notice the following:

- In the first election cycle, in 1992-1996, the wages followed the evolution of the economic cycle: decrease in 1992-1994 and increase in 1994-1996. The proportion of taxes collected from the gross wages, however, increased constantly throughout the period, which shows a higher fiscal pressure on labor, even when the real gross wage increased;

Figure 2. Proportion of tax collection from the average gross wage (%)



Source: Calculated by the authors using data from the National Institute of Statistics, www.insse.ro

- In 1996-2000, a strong decrease of the average real gross wage earnings was noticed (1997) followed by a flat period at about 2550 ROL, in 1990 prices. This is explainable if we consider that 1997 was the year when inflation peaked (for 1995-2004 interval), which eroded strongly all earnings, including wages. A strong decrease of the fiscal pressure was noticed in 1998 and 1999, to the historical minimum of 20.8% in 1998 and 20.5% in 1999. All along the surveyed period, such a low fiscal pressure on the worker has been noticed only in 1991. This evolution confirms the fact that 1998 and 1999 were the years in which a strong fiscal relaxation was attempted, which was not supported, however, by the existing resources, which only made the fiscal pressure burst during the subsequent period;

- 2000-2004 showed a resumed growth of the average gross wage earnings and of the fiscal pressure on them.

Table 1. Average wage earnings 1991-2004

Year	Average nominal gross monthly wage (RON/employee)	Average nominal net monthly wage (RON/employee)	Average nominal monthly tax collection from the wage (ROL/employee)	Consumer price index (compared to previous year, %)	Consumer price index (compared to 1990, %)	Average real gross monthly wage (ROL/employee)	Average real net monthly wage (ROL/employee, in 1990 prices)	Real monthly tax collection from the wage (ROL/employee, annual average in 1990 prices)	Proportion of the tax collection from the average gross monthly wage (%)
1991	9.475,92	7.647,75	1.828,17	270,20	270,20	3507,00	2830,40	676,60	19,29
1992	25.471,67	20.172,33	5.299,33	310,40	838,70	3037,04	2405,19	631,85	20,80
1993	78.347,17	61.102,17	17.245,00	356,10	2.986,61	2623,28	2045,87	577,41	22,01
1994	181.694,33	140.112,67	41.581,67	236,70	7.069,31	2570,18	1981,98	588,20	22,89
1995	281.286,50	215.624,83	65.661,67	132,20	9.345,63	3009,82	2307,23	702,59	23,34
1996	426.610,25	321.986,83	104.623,42	138,80	12.971,74	3288,77	2482,22	806,55	24,52
1997	846.449,67	636.821,42	209.628,25	254,80	33.051,99	2560,96	1926,73	634,24	24,77
1998	1.357.132,17	1.073.898,08	283.234,08	159,10	52.585,72	2580,80	2042,19	538,61	20,87
1999	1.957.731,25	1.554.736,50	402.994,75	145,80	76.669,98	2553,45	2027,83	525,62	20,58
2000	2.876.644,75	2.173.478,08	703.166,67	145,70	111.708,16	2575,14	1945,68	629,47	24,44
2001	4.282.622,00	3.053.597,75	1.229.024,25	134,50	150.247,47	2850,38	2032,38	818,00	28,70
2002	5.452.097,00	3.881.178,33	1.570.918,67	122,50	184.053,15	2962,24	2108,73	853,51	28,81
2003	6.741.152,00	4.868.103,50	1.873.048,50	115,30	212.213,29	3176,59	2293,97	882,63	27,79
2004	8.261.491,08	5.882.575,27	2.378.915,81	111,90	237.466,67	3479,01	2477,22	1001,79	28,80

Source: Processed by the authors using data from the National Institute of Statistics, www.insse.ro

A deeper analysis must be done by comparing the earned wage with the minimal consumption basket (Tables 1 and 2). It was approved for the first time by OUG nr. 217/2000, published in M.O. 606 of 2000, its structure, at October 2000 prices, being as follows:

Table 2. Minimal monthly consumption basket

No.	Product type	Amount		Value (October 2000 prices)
		MU	Monthly/average household	Lei (ROL) monthly / average household
<i>Food products</i>				
1.	Flour	Kg.	3,084	21.458
2.	Corn flour	Kg.	5,888	33.150
3.	Bread	Kg.	31,966	277.512
4.	Bakery	Kg.	0,505	12.934
5.	Pasta	Kg.	0,701	11.536
6.	Rice	Kg.	1,402	14.343
7.	Beans	Kg.	2,103	40.621
8.	Potatoes	Kg.	13,179	44.012
9.	Carrots, parsnip, celery	Kg.	1,682	18.786
10.	Dry onions	Kg.	2,524	12.237
11.	Sour cabbage and pickles	Kg.	3,084	35.328
12.	Tomato sauce	Kg.	0,841	16.406
13.	Canned vegetables	Kg.	0,561	11.872
14.	Apples	Kg.	3,084	25.317
15.	Citrus, meridional fruits	Kg.	0,561	12.455
16.	Canned fruits	Kg.	0,701	22.599
17.	Cattle meat	Kg.	0,701	28.919
18.	Pork	Kg.	2,524	120.683
19.	Poultry meat	Kg.	2,804	117.945
20.	Sheep meat, etc.	Kg.	0,421	15.027
21.	Meat preparations	Kg.	2,524	111.601
22.	Fresh and frozen fish	Kg.	0,841	20.347
23.	Fresh milk	l.	14,861	87.558
24.	Sour milk, yoghurt	l.	0,701	10.395
25.	Cow fresh cheese	Kg.	1,122	37.122
26.	Sheep fresh cheese	Kg.	0,701	27.537
27.	Sweet cow cheese and cream	Kg.	0,981	28.114
28.	Eggs	Pcs.	42,000	52.596
29.	Lard	Kg.	0,701	11.794
30.	Edible oil	l.	2,804	51.610
31.	Margarine	Kg.	0,561	11.484
32.	Sugar	Kg.	2,804	31.784
33.	Chocolate, candy	Kg.	0,140	8.453
34.	Soft drinks	l.	2,383	16.222
Total (1-34)				1.399.757
Other foods				209.964
TOTAL foods				1.609.721

Table 2. Minimal monthly consumption basket (continuation)

No.	Product type	Amount		Value (October 2000 prices)
		MU	Monthly/average household	Lei (ROL) monthly/average household
<i>Non-food products</i>				
35.	Garments			35.113
36.	Knitwear			22.415
37.	Footwear			57.909
38.	Books and school supplies			122.462
39.	Medicines			110.296
40.	Hygiene articles			35.844
	Total (35-40)			384.039
	Other non-food items			193.556
	TOTAL non-food items			577.595
<i>Services</i>				
41.	Water, sewage, salubrity			58.137
42.	Electric power	kWh	84,10	118.848
43.	Thermal or other sources of energy	Gcal	0,86	234.075
44.	Cooking gas	m3	29,16	44.119
45.	TV subscription			50.551
46.	Phone	Impulses	50	37.285
47.	Public transportation	travels	42	114.890
48.	Health care			124.969
49.	Taxes and dues			44.023
	Total (41-49)			826.897
	Other services			122.381
	TOTAL services			949.278
	Grand total			3.136.594

Source: OUG nr. 217/2000

This consumption basket was calculated for a household of 2.804 persons.

The level of the minimal consumption basket was updated quarterly by the National Institute of Statistics until 2ndQ 2003, when this assignment passed to the Ministry of Social Solidarity and Family, which ceased publishing it.

Table 3. Coverage of the basic monthly consumption basket by the gross and net average wage

Year	Average real gross monthly wage (ROL/employee, in 1990 prices)	Average real net monthly wage (ROL/employee, in 1990 prices)	Real minimal monthly consumption basket (ROL/person in 1990 prices)	Coverage of the basal consumption basket from the gross wage	Coverage of the basal consumption basket from the net wage	Difference of coverage, gross – net
2000	2575,14	1945,68	1036,15	2,49	1,88	0,61
2001	2850,38	2032,38	946,73	3,01	2,15	0,86
2002	2962,24	2108,73	946,26	3,13	2,23	0,90
2003	3176,59	2293,97	918,96	3,46	2,50	0,96

Note: the analysis was limited to 2003, since there were no available data for the minimal consumption basket for 2004 – 2006

Source: Calculated by the authors using INSSE data

Table 3 shows that fiscality had a strong impact on the standard of living of the employees in 2000-2003, materialized in a decreasing rate of coverage of the minimal consumption basket using the net wage compared to the gross wage. Thus, in 2000, the gross wage covered 2.49 times the minimal consumption basket, while the net wage covered it just 1.88 times, which means that the power of the net wage to cover the minimal consumption basket was 0.61 times lower than that of the gross wage. Thus, the taxes paid by the employee from the gross wage would have covered an additional 0.61 of the value of the minimal monthly consumption basket.

The loss of consumption generated by the taxes increased year by year, reaching in 2003, 0.96 of the value of the minimal monthly consumption basket. In 2003, the gross wage covered 3.46 times the minimal consumption basket, while the net wage covered it just 2.50 times.

The continuous deterioration of the net wage capacity to cover the minimal monthly consumption basket demanded action from the authorities. The most important measure was the introduction of the single taxation rate of 16% as of 1st January 2005. This aimed both the relaxation of the fiscal burden on all employees and a fiscal equity of work taxation, so that the

people on higher wages do not have additional fiscal burdens compared to the people with lower wages.

Conclusions

The concept of “quality of life” includes its most important component, the “standard of living”.

The provision of a decent standard of living depends on the level of society development quantified by the GDP and on its distribution.

The employees represent the most important category of occupied people whose earnings are taxed. This is supported by the 56.04% proportion of employees within the total occupied people (in 2003).

The analysis of the wage earnings in 1990-2005 showed that:

- In 1992-1994 the average real gross wage decreased while in 1994-1996 it increased. This didn't influence the proportion of tax collection from the wage which increased continuously and this increased the fiscal burden over the work;

- A significant decrease of the average real gross wage was noted in 1996-2000, due to the peak inflation, which eroded all earnings strongly;

- The lowest fiscal pressure felt by the employees was noticed in 1998 and 1999.

From this evolution we may conclude that fiscal relaxation was attempted in 1998 and 1999, but it was not supported by the available resources, and the fiscal pressure soared subsequently.

The coverage of the minimal monthly consumption basket by the wage showed that:

- Fiscal policy had a strong impact on the standard of living of the employees in 2000-2003, as showed by the decreasing coverage of the minimal monthly consumption basket by the net wage compared to the gross wage;

- The continuous deterioration of the net wage capacity to cover the minimal monthly consumption basket demanded action from the authorities. The most important such measure was the introduction of the 16% single taxation rate. This aims a fiscal relaxation for all employees, creating the premises for a fiscal equity of work taxation.

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