

## POLITICAL IDEOLOGY AND FISCAL POLICY. THE CASE OF ROMANIA

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### Abstract

The main question asked in this paper regards the possible influence of political ideology on the fiscal policy measures proposed and implemented by the Romanian government. We observe the political affiliation of the ministers of finance and the positioning of their parties on the left-right axis. We find there is a certain equilibrium in terms of the duration the Ministry of Finance portfolio was occupied by a representative of the centre-left versus centre-right parties. The analysis of the influence of ideology on policy is complicated by external facts such as political, social and economic context.

**Keywords:** government, finance, political party

**JEL Classification:** D72, E62, G18

The easiest way of segmenting the political spectrum is to use the left-right axis. A preferred field of displaying the ideological orientation of the politicians is the economic one, largely the fiscal area. Normally, we can expect a “left-wing” government to be more interventionist, to promote a fiscal policy relying on larger deficits, while the “right-wing” government is expected to promote a policy of state withdrawal from the economy and to reduce the budget deficits. Theoretically, the left-wing governments might be expected to direct their fiscal policy in a counter-cyclical manner, more restrictive during the periods with low unemployment rates, and in a stimulative manner during the periods with high unemployment rates. Similarly, the right-wing governments might be inclined towards a pro-cyclical approach, in which the fiscal policy stimulates during the periods of boom and restricts during the periods of crisis. As Alesina (1989) acknowledges, the ideological motivations influence the options of politicians in the matter of macroeconomic policies. The importance of the ideological options of the governments on the matter of fiscal policy was the

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object of many previous studies, with different angles of approach. For instance, Baskaran (2012) analysed the relation between political ideology and fiscal policy in the German states at regional level, his observations confirming previous findings that left-wing local administrations spend more than right-wing administrations and have larger deficits.

These theoretical considerations led to the idea that it would be interesting and useful to study the relation between political ideology and fiscal policies in Romania. This study took into consideration relevant elements from the past 25 years and more, covering the entire period of transition of Romania from a centralised economy to the present form semi-integration with the European economy and, why not, with the global economy.

### **1. Outline of defining elements for Romania's fiscal policy**

Considering the current legislation, the Government of Romania has to define and run the fiscal and budgetary policy on the basis of a set of principles: 1) The principle of transparency in setting the fiscal and budgetary objectives and in carrying out the fiscal and budgetary policies; 2) The principle of stability; 3) The principle of fiscal responsibility; 4) The principle of equity; 5) The principle of efficiency, and 6) The principle of efficient administration of the staff expenditure. The fiscal policy must achieve specific objectives (such as maintenance of the public debt at a sustainable level, or ensure the predictability of the taxation rates), and this must be done according to a fiscal and budgetary strategy. This strategy is the public policy document that sets the objectives and priorities in the fiscal-budgetary field, the targets for the revenues and expenditures of the consolidated general budget and of the composing budgets, as well as the evolution of the consolidated general budget balance over a period of 3 years (Fiscal responsibility law, no. 69/2010).

The Fiscal Council was established in 2010 with the purpose to assist the Government in the process of drawing up and running the fiscal policies. This is an independent authority whose objectives are the analysis of macroeconomic and budgetary prognoses, analysis of the fiscal-budgetary strategy, monitoring the observation of the fiscal rules, etc. The activity of the Fiscal Council materialises mainly in the issue of opinions on the main fiscal events.

Frequently, during the period analysed in this paper, the changes in the field of public finance in Romania have been

presented as “reforms”. These reforms were intended to support the process of economic transition or to allow the process of correcting economic and social imbalances. Văcărel (2001) clarified the way in which the reforming measures in the field of public finance aim to modify the system of revenues and the structure of the public expenditure, thus trying to optimise them.

From the beginning of the transition towards a market economy in Romania, several personalities influenced the path of transition. To exemplify, former president Iliescu is one of these personalities and it may be useful to present his point of view on the fiscal matters: “the state and the government are expected to have available means of constructive intervention in the economy; the policy of pure liberalism, of state’s non-intervention, which invokes as argument the self-regulating power of the market mechanisms (which we don’t yet have) is not compatible with the processes of transition, like it is not compatible with the requirements of the modern economy in general” (Iliescu, 1994, p. 179-180). He continues (p. 181-182) saying that the “state must not use an oppressive taxation that inhibits the economic initiative; on the contrary, it must think of means of stimulating the initiative”. These points of view, stated during the early transition, are illustrative for the dominant approaches of the country’s governance.

The lack of long-term consistency is a defining trait for the Romanian fiscal policy in the past 27 years. This fact has been noticed many years ago by Văcărel (2001), who noticed that a *retrospective analysis of the Romanian fiscal policy during the years of transition shows that there was no clear and coherent strategy. The regulations regarding taxes, dues and contributions have been adopted on the basis of the immediate necessities, only seldom considering medium or long-term objectives. Some of the adopted solutions have been suggested by foreign advisors or by the representatives of international bodies, starting from the experience of the countries or of the interests of the institutions for which they were working, which were not in agreement with the specific conditions of Romania and with our own interests.*

Although it might be tempting to remain with the analysis just on theoretical bases, we considered, however, essential to use landmarks from the recent political and economic history of Romania. Therefore, in order to investigate the relation between the political ideology and the fiscal policy, we rely largely on the historic approach,

making a comparative analysis of the governments of the recent decades, completed with the hypothesis of the left-right structure of the political spectrum. This approach, although useful in our case, has its limitations resulting from the interpretation (or lack of interpretation) of the distinctions between the ideologies of the different political parties situated in the same area of the dichotomous axis.

During the past 27 years, the Romanian Ministry of Finance was headed by 24 ministers. Four of them held this position twice, which means that this ministry has been headed by 20 different people during this period. Within the same ministry, there also have been several mandates of minister delegate for budget (1991-1992 and 2012-2014).

Of interest for this analysis is the Ministry of Economy too (with its various denominations and forms of organisation). Two times, this ministry had a common governance with the finance (1991-1992 and 2007-2008), both times, the portfolio of the minister of economy being expanded to include the ministry of finance. Overall, there were 19 ministers heading this ministry during the surveyed period. A more detailed presentation of this data is included in Table 1, at the end of the paper.

Besides the ministries of finance and economy, of interest for our analysis we also considered to be the ministries of reform, privatization industry and resources, as well as some hybrid ministerial forms of coordination of the economic activity.

This analysis aimed first to clarify the correct succession of the leadership of the relevant ministries. Although such approach might seem easy to do, the reality is that some information is hard to get to, if not obscured. Such an example is the first finance minister of Romania after the 1989 revolution. Most sources, including the webpage of the Ministry of Finance, indicate that the first minister of finance was Theodor Stolojan, as of June 1990. Actually, up to that moment, the ministry has been headed by Ion Păţan, former communist dignitary and one of the few maintained in high profile leading positions in 1990. The second objective of the analysis consisted in the identification, as closely as possible, of the specific segment of the political spectrum to which these people could be assigned to. This objective was quite ambitious and the results are surely perfectible. Figure 1 shows the results of the analysis. For a better view of the successive ministers of finance during the past

decades, the chart has been drawn in colours showing the political affiliation of portfolio holders. Red indicates the ministers from Social Democrat Party (PSD or its precursors PDSR and FSN), which positions itself as a centre-left party; blue shows the National Liberal Party (PNL) ministers, officially with centre-right political positions; green shows the Christian-Democratic National Peasants' Party (PNȚCD) minister, officially with centre-right political positions; brown shows the Democratic Liberal Party (PDL) ministers, officially with centre-right political positions and mauve shows the politically independent ministers (even if they were affiliated to governments generally controlled by PSD).

The analysis comprises about 320 months of governance of the Ministry of Finance. The breakdown of this period is as follows:

- about 129 months (40% of the total), the ministry has been headed by PSD ministers (or predecessors of this party), representing a centre-left wing ideology;
- about 105 months (33% of the total), the ministry has been headed by PNL ministers, representing a centre-right wing ideology;
- about 12 months (4% of the total), the ministry has been headed by a PNȚCD minister, representing a centre-right wing ideology;
- about 47 months (15% of the total) the ministry has been headed by PDL ministers, representing a centre-right wing ideology;
- about 27 months (8% of the total) the ministry has been headed by independent ministries, generally in governments with centre-left wing orientation.

We could also make an adjustment and assign the independent ministers which were clearly supporters of PSD policies to this party and the results would change as follows: PSD – 146 months (46% of total), independent – 10 months (3% of total).

In total, the ratio is of 146 months (46% of the total) leadership with centre-left wing orientation, to 164 months (51% of the total) leadership with centre-right wing orientation (and 10 months, representing 3% of the total with ideologically independent leadership). It is interesting to note that this leadership, which was preponderantly left-wing in the early 90s, shifted towards the right wing, the last decade being clearly dominated by the representatives of centre-right wing doctrines. Generally there was an ideological

consistency between the holders of the finance ministry portfolio of the other relevant portfolios (budget, economy etc.)

It is clear that the differences between fiscal policies cannot be analysed strictly in terms of the political affiliation of finance ministers; the economic and political circumstances, as well as the duration of their mandates, must also be taken into consideration. Furthermore, as noticed by Alesina (1989), sometimes it is difficult to position the governing coalitions on the left-right axis, because the relative influence of the coalition members can change in time, thus influencing its general position. Also, for much of the period observed, Romania was governed by political coalitions. In this respect, we must also mention the conclusions of Alesina and Perotti (1995), according to which the coalition governments have a lower capacity to implement successful fiscal adjustments than the single-party governments because of the actions of various pressure groups. Another issue to be considered is the general economic and financial context. For example, the financial crisis that started in Romania in 2008 had a very significant influence on the fiscal policy of all European countries (Lupu, 2010), Romania included.

## **2. Observations regarding the relationship between political ideology and fiscal policy in the case of Romania**

The problem of the relation between the doctrinarian aspects and the public policies is rather difficult to approach. Chirovici (1999) noticed that *there has not been, and there still isn't a severe doctrinarian clarification at the level of the dominant political parties, including in terms of their economic models underlying the administrative action*. This was true when Chirovici wrote it and is still true. Manolescu (1997) also noticed the inter-correlation between the fiscal policy and the political domain.

Obreja Braşoveanu et al. (2011) make a relevant analysis, conducting an ideological partition of the post-revolutionary governments from Romania on the left-right axis, and presenting the evolution of some macroeconomic indicators during the mandates of these governments. Although interesting, this analysis doesn't take into consideration elements such as the general economic context or even different ideological shades, and since there is no temporal symmetry, the results have limited usefulness.

In conducting our analysis we took into consideration two possibilities: on the one hand, the analysis of the relations between

the political doctrine and the intentions of fiscal policy and, on the other hand, the actual fiscal measures. The reason behind this two-factor approach resides in the considerable difference existing between declarations and facts. Particularly at the political level, such differences can be more acute.

The preferences for different economic policies of the main political parties from Romania are generally known. When a party comes to govern, these orientations must acquire a much more concrete form, which must take into account both the doctrine elements, and the elements pertaining to the economic and political context. Therefore, a first stage of our research was to analyse the governance programs which the appointed Prime-ministers presented in front of the Parliament to ask for a vote of confidence. From these governance programs we observed relevant elements for our study. The information seems to confirm the working hypotheses relying on the position on the left-right axis of the parties behind the proposed governments and on the position resulting from the statute of the different parties. It may be a surprise, however, that a common element of all governments, irrespective of their political orientation, was the aim to decrease the “level of taxation”. Most governments aimed to undertake major fiscal reforms. Occasionally, the adopted measures or packages of measures actually had a reforming character. These reforms have been usually announced after major changes in the political doctrine of the governments, based on their party composition (from the left-wing/centre-left-wing governance of FSN, to the centre-right-wing governance of CDR, than again to the left and then again to the centre-right).

It should be noted, however, that sometimes the fiscal policies proposed and implemented by the governments were not easily identifiable as being in balance with the political orientation of the parties that proposed the ministers of finance in office. Particularly in the past couple of years, when the finance ministers were affiliated to the party proposing a left-centre ideology, the fiscal changes appeared to be of a more liberal orientation.

The intention to investigate the correlation between the political ideology and the fiscal policy is generous, but entails significant difficulties. It is obvious that the ideological positions of the parties have a dynamic character, the doctrine and political positions of the individual people also display a dynamic character (the most relevant one being that of the ministers of finance who had changed

their political orientation). Furthermore, most governments are supported by coalitions of political parties, which produce a doctrine mix that is difficult to analyse.

### **3. Evaluation of the political ideology as predictor of the fiscal policy in Romania**

How much can we anticipate the orientation of the fiscal policy based on the information given by the political affiliation of the government? Intuitively, we may expect some general changes, but without being sure of it. Many times, reality has proven that the implemented policies don't fit with the initial promises of the governance, and that the dynamics of some of the coalition governments is very hard to understand because of the different doctrines of the governing parties. In Romania we recently had the opportunity to experiment, with uncertain results, a centre-right-wing governance (PNL) of the Ministry of Finance, in parallel with the existence of a minister empowered for the budget, whose political orientation was centre-left-wing (PSD).

Reverting to the matter of the political doctrine and of the manner in which it determines the fiscal policy promoted by different governments, one may say that this influence has rather strict limits. We must acknowledge the rather politically confusing character of the Romanian governances, where the doctrine problems are only broadly clarified within the parties. It may be thus relevant to read a brief excerpt from a recent governing program (2012): *just as the budgetary discipline is not left-winged or right-winged, likewise the concern for the social cohesion must not have ideological colour*. In order to make the political doctrine display its predictive character mentioned earlier, several conditions should be accomplished as much as possible. On the one hand, the political parties should be supported by social segments with clearly defined preferences for economic policies. Then, these social segments should have enough influence within the specific parties, so that these preferences are assumed by the said parties. The governments proposed by these parties should have the capacity to implement the specific policies.

An area of further discussion regards fiscal rules and the way of restricting governments' behavior and improving the consistency of public financial policies (Lupu, 2015). This could also be linked with the process of European integration and the challenges of European governance, as outlined by Criste and Lupu (2012).



As final conclusion, we might mention, like Hibbs (1992), that a left-wing vision versus a right-wing vision is too simplistic to explain the changes in the fiscal policy, considering that factors related to the conditions of the economic environment, as well as other political and social elements, most times have a very important influence.

### Acknowledgement

This paper is based on research initially carried out in the research project *Ideologie politică și politică fiscală. Cazul României* at “Victor Slăvescu” Centre for Financial and Monetary Research.

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## ANNEX

Table 1

## Succession of the ministers relevant to this analysis, in the governments after 1989

Government	Political party	Minister of finance	Minister of economy	Other relevant ministers
Roman 1 26.12.1989- 28.06.1990	FSN	<i>Ion Păţan</i> (26.12.1989- 28.06.1990) (FSN)	<i>Victor Atanasie Stănculescu</i> (28.12.1989- 16.02.1990) (FSN)	
Roman 2 28.06.1990- 30.04.1991	FSN	<i>Theodor Stolojan</i> (28.06.1990- 30.04.1991) (FSN)	<i>Eugen Dijmărescu</i> (28.06.1990-30.04.1991) (FSN)	<i>Florian Bercea</i> (30.04.1991-16.10.1991) (FSN) Minister appointed with the budget
Roman 3 30.04.1991- 16.10.1991	FSN	<i>Eugen Dijmărescu</i> (30.04.1991-16.10.1991) (FSN)		
Stolojan 16.10.1991- 19.11.1992	Nat. Union	<i>George Danielescu</i> (16.10.1991-19.11.1992) (PNL)		<i>Florian Bercea</i> (16.10.1991-19.11.1992) (FSN) Minister of the Budget, State Revenues and Financial Control
Văcăroiu 19.11.1992- 11.12.1996	PDSR	<i>Florin Georgescu</i> (19.11.1992- 11.12.1996) (PDSR)	<i>Mișu Negrițoiu</i> (19.11.1992-27.08.1993) (IND) <i>Mircea Coșea</i> (28.08.1993-11.12.1996) (IND)	

Ciorbea 12.12.1996- 17.04.1998	CDR, USD UDMR	Mircea Ciumara (12.12.1996-05.12.1997 <b>(PNȚCD)</b> ); Daniel Dăianu (05.12.1997-17.04.1998 <b>(PNL)</b> )		
Vasile 17.04.1998- 13.12.1999	CDR, USD UDMR	Daniel Dăianu (17.04.1998- 23.09.1998) <b>(PNL)</b> ; Decebal Traian Remeș (23.09.1998- 22.12.1999) <b>(PNL)</b>		
Isărescu 22.12.1999- 28.12.2000	CDR, PD, PNL, PSDR, UDMR	Decebal Traian Remeș (22.12.1999- 28.12.2000) <b>(PNL,</b> <b>PNȚCD-</b> November 2000)		Mircea Ciumara (22.12.1999-28.12.2000): State minister, president of the Council of Economic and Financial Coordination <b>(PNȚCD)</b>
Năstase 28.12.2000- 28.12.2004	PSD	Mihai-Nicolae Tănăsescu (28.12.2000- 28.12.2004) <b>(PSD)</b>	Dan-Ioan Popescu (28.12.2000-28.12.2004): Minister of industry and resources (as of 19 June 2003); Minister of economy and trade, as of 11 March 2004; State minister on economic matters, Minister of economy and trade) <b>(PSD)</b>	
Tăriceanu 1 29.12.2004- 5.04.2007	D.A., PNL- PD, UDMR, PUR Alliance	Ionel Popescu (29.12.2004- 22.08.2005) <b>(PNL)</b> ; Sebastian Vlădescu (22.08.2005- 05.04.2007) <b>(PNL)</b>	Ioan-Codruț Șereș (29.12.2004-04.12.2006) <b>(PUR)</b> Varujan Vosganian (12.12.2006-05.04.2007) <b>(PNL)</b>	Adrieian Videanu (29.12.2004-20.03.2005) <b>(PD)</b> Gheorghe Seculici (20.03.2005-22.08.2005) <b>(PD)</b> Gheorghe Pogea (22.08.2005-12.06.2006) <b>(PD)</b>

				State minister coordinating the economic activities
Tăriceanu 2 5.04.2007- 22.12.2008	PNL, UDMR	Varujan Vosganian (5.04.2007-22.12.2008) <b>(PNL)</b>		
Boc 1 22.12.2008- 23.12.2009	PDL, PSD	Gheorghe Pogea (22.12.2008-23.12.2009) <b>(PDL)</b>	Adrieian Videanu (22.12.2008-23.12.2009) <b>(PDL)</b>	
Boc 2 23.12.2009- 09.02.2012	PDL, UDMR, UNPR	Sebastian Vlădescu (23.12.2009-03.09.2010) <b>(PDL)</b> Gheorghe Ialomițianu (03.09.2010-09.02.2012) <b>(PDL)</b>	Adrieian Videanu (23.12.2009-03.09.2010) <b>(PDL)</b> Ion Ariton (03.09.2010- 09.02.2012) <b>(PDL)</b>	
Ungureanu 09.02.2012- 07.05.2012	PDL, UDMR, UNPR	Bogdan Drăgoi (09.02.2012-07.05.2012) <b>(PDL)</b>	Lucian Bode (09.02.2012- 07.05.2012) <b>(PDL)</b>	
Ponta 1 07.05.2012- 21.12.2012	USL (PSD, PNL, PC)	Florin Georgescu (07.05.2012-21.12.2012) <b>(IND)</b>	Daniel Chițoiu (07.05.2012- 21.12.2012) <b>(PNL)</b>	
Ponta 2 21.12.2012- 5.03.2014	USL (PSD, PNL, PC, UNPR)	Daniel Chițoiu (21.12.2012-06.02.2014) <b>(PNL)</b>	Varujan Vosganian (21.12.2012-07.10.2013) <b>(PNL)</b> Daniel Chițoiu, interim, (07.10.2013-17.10.2013) <b>(PNL)</b> Andrei Gerea (17.10.2013-5.03.2014) <b>(PNL)</b>	Liviu Voinea (21.12.2012-27.08.2014) <b>(PSD)</b> Darius Vâlcoș (28.08.2014-13.12.2014) <b>(PSD)</b> Minister delegated for the budget

Ponta 3 5.03.2014- 17.12.2014	USL (PSD, UDMR, PC, UNPR)	Ioana Petrescu (5.03.2014-14.12.2014) <b>(IND)</b>	Constantin Niță (5.03.2014- 13.12.2014) <b>(PSD)</b>	
Ponta 4 17.12.2014- 4.11.2015	PSD, UNPR, ALDE	Darius Bogdan Vâlcov (14.12.2014-15.03.2015) <b>(PSD)</b> Victor Ponta, interim (15.03.2015-30.03.2015) <b>(PSD)</b> Eugen Orlando Teodorovici (30.03.2015- 17.11.2015) <b>(PSD)</b>	Mihai Tudose (17.12.2014- 17.11.2015) <b>(PSD)</b>	
Cioloș 17.11.2015- present	IND.	Anca Dana Dragu (17.11.2015-present) <b>(IND)</b>	Costin Grigore Borc (17.11.2015-present) <b>(IND)</b>	

*Data source: centralization done by the author using the available public information*

Figure 1

Political succession of the governance of the Ministry of Finance

