Abstract: Fiscal stability is one of the paramount demands of important foreign investors, as well as of all taxpayers. Fiscal stability is influenced by the level of trust in the fiscal system and in fiscal institutions. We conducted a study to determine the level of trust in the Romanian fiscal system, medium- and long-term, as well as in fiscal institutions. The recommendation that can be made after analysing the results is that the level of trust needs to be increased in order to obtain fiscal stability.

The paper is also a contribution to the field of fiscal literature, mapping out some of the improvements needed with regard to the Fiscal Compact, as well as researching legal persons. Due to bias in fiscal institutions forecast, we totally agree with the idea of creating an independent european fiscal institution that provides its own budget forecasts, so that the deficits and debts will be measured the same.

Key words: fiscal stability, fiscal institutions, fiscal system, trust, reform, fiscal compact, sustainability

JEL classification: H21, H32, H68

1. Introduction

When spending can be targeted to particular interests groups or to geographically based electorates and „revenues are centralized and residually determined, politicians have the incentive to internalize the full benefit but only a fraction of the social costs of an increase in spending directed to their own specific constituency.” This negative externality generates budgets that are sub-optimal from the perspective of the group. The cited study focuses on the relationship between the institutional design of budget processes and fiscal performance in ten CEEC countries. The outcomes confirm the hypothesis that budget design can have an impact on fiscal stability and performance. This means that budget design institutions, especially in early stages, need to function in order to create the space for fiscal stability. (Gleich, 2003)

Considering this stage completed, a sustainable fiscal system has to accomplish 3 conditions all together: fiscal measures to stimulate economic growth, an operational fiscal mechanism and performant fiscal institutions.

2. Reform of Fiscal Institutions

This sub-chapter sets out to analyze some aspects and perspectives which we believe a fiscal administration reform should be based on:

a. reducing the number of institutions and organizing them efficiently;

b. increased performance of IT infrastructure and the allotting of a budget meant to increase considerably for its integration for all fiscal administrations and for real-time performance; such a system should be easy to use by fiscal inspectors and should ensure increased transparency for contributors;

c. In the field of human resources: re-directing competent individuals from bureaucratic work to more contributor-oriented tasks. Necessary prerequisites in this respect are satisfactory pay and adequate professional training.

Sometimes, the solutions to accomplish the proposed measures and reduce public deficits and debt and also public expenditure and revenue are known but it is difficult to implement them in practice due to the political process. It is important that leading economists inform the general public about these possibilities. (Kirchgässner, 2001)
In order to analyse Romania’s situation in a European context we may compare our country’s position to the one of Bulgaria, by making use of the following result indicators (3):

- the level of fiscal income collected as percentage of BIP by 1000 clerks in the fiscal apparatus (3.37 in Bulgaria, as compared to 1.1 in Romania)
- the number of administrations per 1 million inhabitants (3.8 in Bulgaria, as compared to 20.5 in Romania in 2009) (Fiscal Council Report, 2012)
- numărul mediu de plăți pe care trebuie să le facă un contribuabil (persoană fizică/persoană juridică) în decursul unui an (the average number of payments a contributor has to make (natural person/legal person))

Another means by which Bulgaria is trying to attract foreign investors is promoting itself in business magazines of international status, such as the Financial Times, where it promotes its advantages as compared to other neighbor states. Such advantages are: fiscal discipline and the lowest level of imposing income on natural and legal persons in the EU. (Nita Ioana, 2013)

A further positive aspect is that Bulgaria does not pay for this type of publicity, which seems to be quite effective in attracting investors, as it has accessed European funding in order to finance this type of promotion.

3. Scope of the Research
The scope of the present research article is to determine the level of trust of taxpayers in fiscal institutions from Romania. Considering the hard situation the economy is facing nowadays when the majority of European countries are more or less affected by the world economic crisis, trust in fiscal institutions became a vital thing. Thus, we have found very few researches about this topic, especially in Romanian fiscal literature.

4. The sustainability of the Romanian Fiscal System in the Context of the Signing of the Fiscal Compact
“Fiscal sustainability and long-run issues are closely related to developments in the budget and the debt level. The dilemma is that the budget in the short run is influenced by many factors including the business cycle but also other temporary influences. Assessing the structural budget balance is thus associated with substantial measurement problems, and used measures are known to be very volatile and imprecise. This makes strict targeting of the structural budget balance very problematic, and leads to excessive policy activism to ensure that the target is met.” (Eichengreen, 2004)

Since an overall aim of the policy strategies is to set fiscal stabilizers, this is a very unfortunate consequence. It is a problem to base accountability in fiscal policy on a theoretical concept like the structural budget balance which is measured with a large degree of uncertainty.

The recently agreed fiscal compact for the European Union has strict targeting of the structural budget balance as a key element. In the short run where most countries need to strengthen their budgets and ensure structural surpluses this may seem a reasonable requirement.

In a medium-term perspective it is far from obvious whether the compact will deliver the consistency and credibility in fiscal policy it is intended to create. The compact is based on the strict German approach but not applicable to all European countries in our opinion (for example a more a more flexible approach has been pursued with success in Sweden). The Swedish system is interesting because it takes both the filtering and the smoothing problem into account. The criteria can be improved by considering also other fundamental factors like: public pension reform schemes, reform of budget making arrangements, and reform of labor markets and unemployment insurance. (Eichengreen, 2004)

Due to bias in fiscal institutions forecast, we totally agree with the idea of creating an independent European fiscal institution that provides its own budget forecasts, so that the deficits and debts will be measured the same. (Frankel, 2013)

In order to measure the impact that the Fiscal Compact has on taxpayer’s trust in fiscal policy and fiscal institutions in Romania we conducted a survey asking juridical persons to respond to a questionnaire.

5. Study case: Opinions regarding fiscal system sustainability

a. Research Method
The research method used in this article is that of the questionnaire, as well as mini-interviews with persons who took part at the meeting where the surveys were completed.

b. Source of Data
For the sake of gathering the needed data related to financial statements of sample companies, we used Google Docs and sent the questionnaire through e-mail and where no response was offered we phoned and went to the firm in person.

c. Sample
In 2012, there were around 490 juridical person contributors in the county of Sibiu considered average by the fiscal administration.

After having questioned over 350 companies in the county of Sibiu, we obtained a total of 208 accurately filled in questionnaires.

From the total of 208 questionnaires (Banu I. &Buteuc I., 2013):
- 100 were filled in by companies with a turnover summing up less than 100,000 euro
- 57 questionnaires being filled in by companies with a turnover between 100,000 and 999,999 euro,
- 51 companies had a turnover of over 1 million euro in 2012.

From among these, 65 questionnaires were filled in by the companies’ top management, 120 by the middle management and the section regarding taken positions in the rest of 23 questionnaires have not been filled in.

5.1 Study case
5.1.1 „How much do you trust the following institutions?”

Responses are summarized in the table below:

<table>
<thead>
<tr>
<th></th>
<th>Very much</th>
<th>Quite enough</th>
<th>Not so much</th>
<th>Not at all</th>
<th>I don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>National Agency for Fiscal Administration</td>
<td>18%</td>
<td>63%</td>
<td>15%</td>
<td>2%</td>
</tr>
<tr>
<td>b</td>
<td>Fiscal Guard</td>
<td>9%</td>
<td>36%</td>
<td>32%</td>
<td>18%</td>
</tr>
<tr>
<td>c</td>
<td>National Customs Authority</td>
<td>6%</td>
<td>24%</td>
<td>31%</td>
<td>12%</td>
</tr>
<tr>
<td>d</td>
<td>National Forecast Committee</td>
<td>2%</td>
<td>27%</td>
<td>30%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: author’s calculations

In order to extend the research domain also to the level of other component institutions of the fiscal apparatus, we made use of question number 2. Out of the 4 institutions respondents were asked about, The National Agency for Fiscal Administration enjoys the highest level of trust (81% - 167 respondents placing quite a lot or a lot of trust in it), 17% place little trust in it, and 2% no trust at all. We notice that in Sibiu the degree of trust is superior to the one on a national level.

50% (103 respondents) do not have much trust or no trust at all in the Financial Guard, whereas 5% responded with „I do not know”.

On the other hand 45% (94 respondents) place quite a lot or a lot of trust in this institution.

With respect to the National Customs the number of respondents who answered „I do not know” with respect to the trust placed in this institution is significant (28% - 59 respondents). We can explain this by the fact that these companies did not interact with this institution lately and cannot form a clear-cut opinion. The percentage of those who do not trust this institution much or do not trust it at all is greater than the number of those who trust it fairly much or a lot (43% vs. 30%).

The National Forecast Committee does not enjoy a too high level of trust either, with just 29%, that is 61 respondents, describing the level of trust placed in this institution as positive, as compared to 39% - 81 respondents – describing the level of trust as negative. A significant percentage of respondents (32%, 66 respondents) have answered „I do not know” to this question.

We hold that an improvement of the contributors’ degree of trust in the fiscal apparatus will show implicitly in the degree of trust placed in the state’s institutions which are part of the fiscal apparatus, due to the direct connection to the degree of collection of fiscal claims. The higher the level of trust the higher also the degree of collection.

An increase in the degree of collection is an assumed objective of all fiscal strategies, and the fulfillment of this objective is highly important with respect to the long-term sustainability of public finances and of the fiscal system in particular.

A public poll conducted by “Ziarul Financiar” showed the lack of trust on part of the contributors with regard to the forecasts made by the government, but also by international institutions (IMF and ERDB).

Thus, out of a total of 770 polls referring to how the economy will develop in 2013 the following answers were provided:
- the economy will grow by 2.5% (IMF and ERDB forecast) – 16,23% of respondents
- the economy will grow by 1.8% (government forecast) – 15,71% of respondents
- the economy will come to a relative standstill of 0-1% - 37,92% of respondents
- the economy will drop by up to 1% - 8,57% of respondents
- the economy will drop by more than 1% - 21,56% of respondents
5.2.2 Level of agreement with the following questions

The second two questions are asked in order to prove the hypothesis and the answers should be valuable for the policy-makers and the mass-media as well. The following questions answers to what extent do the respondents agree with the following information.

| Table 2 : Determining the level of agreement with the following questions |
|-----------------------------|----------------|-----------------|------------------|-----------------|-----------------|
|                             | Strong Agreement | Agreement | Neither agreement, nor disagreement | Disagreement | Strong disagreement |
| a  | In Romania the fiscal system is sustainable on medium term | 6% | 18% | 34% | 27% | 14% |
| b  | In Romania the fiscal system is sustainable on long term | 3% | 5% | 36% | 31% | 25% |

The data centralized in the above table shows the fact that 41% of the respondents oppose and strongly oppose the direction into which the Romanian fiscal system seems to be moving, while 24% are either in favor, or completely in favor of the medium-term direction taken by the fiscal system.

With regard to the forecasts made by the study’s respondents, we may conclude that these are rather pessimistic in what the long-term sustainability of the fiscal system is concerned. Only 8% hold the Romanian fiscal system to be sustainable, while 56% hold the exact opposite.

An important percentage of 36% and 34% respectively do not have a readily formed opinion yet, which from the vantage point of the authors represents an opportunity for decisional factors to increase the degree of trust in fiscal policies of a significant part (approximately a third) of contributors.

As shown also in chapter three, the contributors’ degree of trust in the fiscal system is a factor that ensures the system’s stability and is crucial for any functional market economy.

6. Summary and Concluding Remarks

The paper contributes to the field of fiscal literature by suggesting a series of improvements to the Fiscal Compact, as well as by the research conducted on legal persons from Sibiu, the 2007 European Cultural Capital, situated in the centre of Romania, and being a medium sized city. Trust in fiscal institutions is not low (although may be as well increased), but becomes an issue when referring to the National Forecasting Commission and the National Customs Authority.

When speaking about long-term trust in fiscal policies and in the fiscal system, 56% of the respondents do not believe the fiscal system is sustainable, while 36% are undecided. Related to medium term trust, the answers are quite the same. In order to increase fiscal stability we hold that trust in fiscal institutions and in the measures they apply has to increase.

As future research we suggest a function that can analyse both fiscal stability and the sustainability of the fiscal system.

7. Acknowledgements

Research conducted within the POSDRU/CPP107/DMI1.5/S/76851 project, co-financed from the European Social Fund through the Human Resources Development Sectorial Operational Program 2007-2013.

8. References