This paper is dealing with a very important issue of economic policy: the role and the significance of the instruments of fiscal and monetary policy. The core of this concept is that the taxes as fiscal lever have to be the most important instrument of economic policy, yet only coupled with the monetary instruments.

Fiscal policy is part of the budgetary policy and thus integral to financial and economic policy.

APPENDIX 1 Fiscal levers and policy as components of economic levers and policy

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<tr>
<th>ECONOMIC POLICY</th>
<th>economic levers</th>
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<td>FINANCIAL POLICY</td>
<td>financial levers</td>
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<tr>
<td>BUDGET POLICY</td>
<td>budget levers</td>
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<tr>
<td>FISCAL POLICY</td>
<td>fiscal levers</td>
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Fiscal policy, as an integral part of the state’s economic policy is made up of the methods, techniques and principles dealing with operations, institutions and specific regularizations for the taxation as the material form of the state’s options in this field.

Fiscal policy as a whole can only be analyzed, compared and understood according to the following factors: the state and the development level of the national economy. One instance of this would be the fact that taxes differ from one country to another according to the development of that particular country. Economically developed countries use the state budget and taxes to redistribute a large part of the gross internal product; which is not the case for the less developed states. The same factor determines the relation between direct and indirect taxes, taxes on wealth and taxes on revenue, the public and the private sectors, the level of the citizen’s revenue and the needs of the state budget. The level and structure of taxes vary greatly from one country to another according to the structure and the portion of needs covered by the state budget: when there are great expenses on education, health and culture and
the state involvement in these fields is important, the revenues used by the state budget are important as well, which will be reflected by higher taxes. All these elements are interdependent and impact on the taxation system of a country, with the particulars that make any taxation system unique.

Fiscal policy is highly dynamic, like the whole of the economic policy, because economic and social life is continually changing and diversifying. This feature is exacerbated in the case of economies in full-fledged reform, such as the economies of the former socialist states.

There are certain **requirements** that have to be respected in any fiscal reform or fiscal system analysis:

- the non-discriminatory, undifferentiated treatment of all economic agents, regardless of their form and propriety;
- the stimulation of (mostly) economic agents that are small and medium, newly setup, involved in a strong process of development and consolidation, or in economic actions of national or social importance through fiscal levers;
- obtaining relatively large revenues for the state budgets faced with great expenses generated by the general process of economic and social reform;
- the simplification and improved flexibility of the fiscal system, the elimination of bureaucracy and abuses;
- the protection of indigenous production, if strictly necessary, through the avoidance of exaggerated imports;
- insuring the compatibility of the national fiscal system;
- the stimulation of the citizens’ desire to work through a non-excessive progressiveness in taxing revenue;
- the respect of the principle of fiscal equity.

Anyway, one must remember an important aspect—**fiscal policy is only one of the components of financial and economic policy**, respectively. This is why “fiscal policy cannot solve the problems of a dysfunctional economy in crisis, nor maintain the process of macroeconomic stabilization, if there is growing unemployment and a high inflation rate”\(^1\). Or, “…in the capitalist system, government policy is targeted on

\(^1\) Bălănescu Rodica, Bălăescu Florin, Moldovan Elena, *Sistemul de impozite*, Ed. Economică, București, 1994, p. 44.
external manifestations and thus transfers problems to the financial, credit and monetary fields without, however, solving them.\textsuperscript{2}

Moreover, fiscal measures are not “rapid” enough to allow the operative adjustment to the extremely dynamic economic context of a restructuring economy in reform. Therefore, \textit{fiscal measures and levers must be backed up with credit and monetary measures and levers}. This idea is supported by many economists: “the power of the state must have a general economic influence and the fight against the lack of balance must rely on the many levers of economy. Moreover, the activity of the central bank must be correlated with the activity of the treasury. The focus is on financial policy, while monetary and credit policies are completions of the former.”\textsuperscript{3}

The main opinions on the methods to be used for intervention in economic life can be grouped around either the “fiscal” or the “monetary” schools. The debate is very fiery, mostly in the U.S. academic circles. The “fiscal” school supports economic intervention, and fiscal and budget regularization in particular; its main representatives are Alvin H. Hansen, Paul A. Samuelson, James Tobin, etc. The “monetary” school has “just money” as their motto and is represented by Milton Friedman, Anna Schwartz, etc. Mostly, but not only, in Europe, more and more economists tend to favor a “mixed” policy of fiscal, budgetary, monetary and credit levers.

There is a clear classification of intervention methods or financial levers, according to their evolution (see appendix 2).

\textbf{Appendix 2 Intervention methods in economy}

Qualitative and selective regularizations:

\textbf{A. automatic action methods}, the “first line” methods. Characteristic to the “fiscal” school, they contain the so-called “integrated elasticity mechanisms” and “integrated stabilizers”

\textbf{B. consciously managed methods}

A. Automatic action methods

A1. “Integrated elasticity mechanisms” (see appendix 3) also called flexibility mechanisms and thought to be able to self-react to the cyclical changes in

\textsuperscript{2} Marglin Stephen, professor at Harvard University, in Babe Alexandru, \textit{Echilibrul financiar in socialism}, Ed. Politică, București, 1979, p. 292.

economic life. The best example of flexibility mechanism is the progressive revenue system. This system functions as follows: since, during periods of economic growth the volume of the taxes grows more rapidly than the weight of taxable revenue, the funds of investors that are available for development are relatively reduced and, thus, the phenomenon of excessive economic expansion is diminished. The mechanism acts the other way around when the economy is in recession.

Alvin A. Hansen, one of the most prominent Keynesians in the U.S., admitting that the economic cycle with its crises is a continuous and stubborn fact of contemporary economic life, thinks highly of these mechanisms. In his opinion, federal revenue in taxes based mostly on progressive taxation on revenue paid by enterprises grow and are reduced cyclically, so as to be able to moderate the ups and downs of “the business cycle”. Supporting his argument with statistical data, he asserts that automatic fluctuations of revenue from taxation and public expenses led to the impressive figure of 35-40 % reduction in the steepness of cyclical oscillations after WWII, with no intervention from the U.S. Congress.4

The core of these mechanisms is that the first task of state intervention in economy is to “temperate” the fluctuations of the economic cycle. It is a known fact that the development-recession oscillations generate negative consequences for the economic activity. The cadence of these cycles must be at least diminished, if not downright stopped at the right moment. In other words, one can only allow this oscillation if the manifestations of the two stages are diminished.

A2. Integrated stabilizers- through this intervention method the state aims to automatically change tax levels, when the macroeconomic indicators (prices, wages, unemployment, etc.) reach a certain pre-established level. This is how the state attempts to influence, to a certain extent, the stages of the economic cycle together with the integrated elasticity methods.

Going back to our previous example (see appendix 3), when, after using the integrated elasticity methods, the evolution of the economy is not getting close to the expected tendency, the state uses these “integrated stabilizers”. In other words, when the progressiveness of taxes has proved inefficient in the reduction of the “violence” of the cadence development- recession, the state modifies progressiveness so as to

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4 For more details see Babe Alexandru, Echilibrul financiar in socialism, Ed. Politică, București, 1979, p. 291.
reduce as much as possible the tendencies toward “over development” and “over recession”. As we know, the modification of the imposition levels for progressive taxes leads, in the “over development” stage, to a diminishing of net revenue by the increase of the tax and, thus, reduced possibilities for investments.

**B. Consciously managed methods**, are also called “discretionary activities” or “discretionary methods of regularization”. They have two main components: the fiscal and the credit-monetary component.

B1. *The methods of the fiscal and budgetary compensation policy*. The main instruments of a *fiscal policy*, according to most specialists are as follows:

- adjusting programs of public works and investments
- altering public transfer expenses
- counter-cyclical change of imposition levels for taxes.

**B2. Methods of monetary and credit regularization** are made up of:

- the discount and rescount policy
- open market operations
- quantitative regularization
- the mandatory bank reserves rules system
- the cash system rules
- the liquidity norms
- the minimal mandatory reserves rules
- the coefficient of the cash treasury
- other rules regulating bank activity: solvability, risk

The qualitative or selective regularizations aim to exercise a certain direct influence on the different credit forms: personal, mortgage, etc. There are other forms of direct control as well- for instance, through balance-sheet auditing- or other forms of “recommendations” through which certain “rules” are established by doing certain activities.

To conclude the *fiscal-monetary controversy*, the economic literature often mentions that this dilemma solved many current economic problems except for a major one: *inflation*. Inflation- a consequence of profound current economic and financial upheavals- is seen by many specialists as the “iceberg against which the fiscal and monetary policies crash and often sink”. The reduction of inflation on the
current economic basis is difficult, as it is accompanied by a stagnation in production and an increase in unemployment.

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