# THE FINANCIAL-FISCAL MECHANISM – THE USE OF FINANCIAL-FISCAL LEVERS

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***Abstract:*** *The impact of public finances on the economy, however, is not limited to this, but is also manifested in the form of the redistribution of incomes and wealth of individuals and economic agents. The public authorities use the specific instruments of finance, including those of a fiscal nature and to guide the economic process, to correct the economic cycle and to eliminate the economic imbalances.*

**Keywords***:* Financial-fiscal mechanism, Financial-fiscal levers, Economic mechanism.

**JEL Classification Codes: H20, H30, G28.**

## 1. INTRODUCTION

The role of the financial mechanism is determined by the place the distribution occupies in the mechanism of social reproduction; the distribution can achieve a permanent balance between consumption and production, between demand and supply. The distribution, achieved largely through the public finances, receives, first of all, the consumption requests; the consumption generated by production and development, by social, cultural, administrative, defense actions is measured by the financial activity through information called financial expenses. Before this information reaches production, the repartition uses a number of methods and tools of the financial mechanism to record the efficiency of consumption at the level of the required financial expenses. Following the efficiency analysis, the financial activity elaborates a series of management decisions, directly influencing the extent of consumption, as follows: on the one hand, in the sense of growth, when the initial financial requests are not sufficient to carry out the actions proposed for financing, and on the other hand, in the sense of decrease, when the financial activity considers that the requests for funds are exaggerated in relation to the future effects or the present possibilities.

## 2. THE FINANCIAL MECHANISM - ROLE AND INTERACTION WITH THE STATE

The information on the financial expenses, corrected by the intervention of the financial activity of distribution on consumption, is directed to production through the financial planning instruments, respectively the national public budget, the budgets of incomes and expenses of the economic agents, the financial balance of synthesis, etc. The production reply, received by the financial activity of distribution, is subject to analysis and influence, specific to the management of the economic activity through finance. First of all, the principles and instruments for measuring the results of the production are used, resulting in the financial indicators in the form of the receipts or the financial income. This information is used to measure and monitor the economic efficiency. When the financial indicators of the economic activity are not adequate, the financial distribution activity acts through the financial mechanism to regulate production, thus: in the sense of growth, when the quantitative-qualitative increase of the production is required to satisfy a volume and a structure given to consumption and in the sense of decrease, when the volume and structure of the production do not correspond to consumption. These actions of direct and indirect production management form the content of the operational financial activity. The information regarding the results of the production, corrected by the operative management acts undertaken by the financial activity in the phases of elaboration and execution of the plans, are directed towards consumption also through the financial planning tools.

The financial mechanism, as a structural element of the general economic mechanism, also performs multiple functions, among which is that of leading and regulating the economic and social phenomena in accordance with the general and national interests, for resource distribution among the economic activities targeting those interests. The instrument of economic activity management and regulation differs, depending on the manner of the macroeconomic management. In the liberalized, decentralized economies, the emphasis falls on the economic and financial levers, on the specific instruments of the competitive economy, without excluding the necessity and the possibility of the state intervention in the economic and social life, with the help of some administrative levers.

The state acts as a public authority, but also as a producer and consumer of public services, as an organizer and financer of insurance and social protection, as a banker and loan contractor, as an insurer and insured. The state influences the material production, the consumption and the gross capital formation, the foreign trade, the distribution of gross and net domestic product, gross and net national product, gross and net added value. For this purpose, the state uses numerous levers and instruments of financial nature and draws an important part of the national product to the public financial funds, on the account of which it directly participates in the economic activity as an economic agent, purchaser of goods and services for social satisfaction, of sole shareholder or co-shareholder in banks or development companies, body with responsibilities of directing the country's economic and social development.

The state influences selectively the economic activity by financing and lending certain activities or actions with the public financial resources, through economic and financial levers or instruments, such as taxes, transfers and subsidies, credits, interests, prices, exchange rates, etc. The state also creates the institutional and legal framework necessary to develop the economic and social activity.

The principles, methods, levers and instruments of the financial and fiscal mechanism are used, in their entirety, in the financial planning action, which has a first-rate role in the proper functioning of the national economy. The financial planning must be carried out together with the economic planning, in a permanent correlation, in order to impose on each other the demands of the economic efficiency. It is necessary to constantly improve and adapt the techniques to the real economic situations so that the financial planning influences the technical and economic decisions. The financial should be conducted under conditions of increased efficiency, correlating the needs of money funds and the possibilities of the economy to provide them.

Therefore, in our opinion, the financial planning should be directed to the followings: firstly, to transform the financial expenses, required by the activities of productive and non-productive consumption, in maximum financial norms, and the possible financial results in minimum financial norms; secondly, to impose these financial norms as firm criteria on which no economic decision of production or development can pass; thirdly, to stimulate, through demanding financing and control, the research, the assimilation, the technical and organizational activities that improve the financial norms.

A significant influence on the functioning of the economic and financial mechanism has the system of economic interests; they manifest themselves at the individual, group, regional and national levels and may be immediate, momentary or conjunctural, and long-term interests. There is no complete convergence between the various categories; they can pre-empt immediate interests over long-term ones or vice versa, depending on the generations that carry them, individual and group interests over national ones or vice versa, depending on the distribution of power centers in the society. The tendency for immediate and high satisfaction of the social needs conflicts with the limited character of the resources available to the national economy at a given time. All these influence the constitution and the use of the system of levers, methods and instruments of financial nature, through which the functions are exercised and the role of public finances is fulfilled. Consequently, solutions must be sought, laws adopted, decisions made by economic agents and central and local state administration bodies.

The economic and financial mechanism should be continuously adapted to the requirements and possibilities of the national economy, of the society, because they are in a continuous dimensional and structural movement. Therefore, the economic and financial mechanism is perfectable. This does not mean, however, the particularly frequent modification of the economic and financial mechanism; if this is possible with regard to regulations with a normative character, the problem cannot be raised as regards the branch and organizational structures of the economy. The principles and methods of organizing and conducting the economic and financial activity must take into account the concrete conditions of each determined historical stage. In our opinion, the economic and financial mechanism must be characterized by a relative stability, without an exaggerated rigidity.

The effectiveness of the economic and financial mechanism depends on the extent to which it meets the objective development needs of the society and its members, of the national economy and the way in which individuals act for its implementation under the specific conditions of each stage. The economic agents that act within the national borders of a state, producers and consumers, sellers and buyers, are bound by interdependence relations. The suppliers and demanders should compensate for each other and promote complementarity relations to attain the proposed goal at the same time. The production, respectively the supply, should be adapted to the market conditions, because the demand itself changes in volume and structure, and the production techniques and technologies evolve continuously as the science progresses. The match between supply and demand should be achieved at all organizational levels and structures. Restoring and maintaining the relative balance between supply and demand is a must. The match between supply and demand cannot yet be the exclusive result of the automatism of the market mechanism. Therefore, it is necessary to build a system of economic levers, methods and instruments, including of financial nature, with which the demand and the supply can be influenced in the desired sense; the action of the economic and financial levers is accompanied by the intervention of some levers of administrative nature, which, however, under the conditions of a decentralized economy, have a reduced weight.

The public finances, implicitly the fiscal system, are involved in the exercise and fulfillment of the functions and tasks of the contemporary state and by the use of the financial levers, they differ depending on the degree or the level of the use of the financial levers. This mode differs depending on the degree or level of the economic development of each country. Thus, in the developed countries, with a market economy, the financial and fiscal levers, respectively the instruments used to set up and direct the public financial funds, stimulate the development or restriction of activities, encourage certain social categories or certain economic agents to carry out various economic actions of particular interest in that stage. For example, after the world economic crisis of 1929 - 1933 and especially after the Second World War, the taxes, the loans, the public spendings, etc. were used as instruments of state intervention in the economy to promote economic growth, correct economic cycles, employment, and to restore the disrupted economic balance.

## 3. TAXES AND THEIR IMPORTANCE AS FINANCIAL AND FISCAL LEVERS

The financial and fiscal levers are designed to act automatically when the economic phenomena occur or when they are moved by the public decision-making bodies. For example, the budgetary receipts from income taxes decrease as soon as the national product or national income begins to shrink and increase in the opposite situation: the unemployed receive unemployment benefits from the moment of their dismissal, but not as their reintegration into work, the expenses for helping the unemployed are gradually reduced; as far as the agricultural support program is concerned, when the demand for solvents increases, consumption is reduced, prices of agricultural products decrease, governments purchase the unused crop on the market, and when prices start to rise, the state sells the purchased products and recovers the amounts spent.

It should be noted that a built-in stabilizer exerts an action that tends to attenuate to a certain point the fluctuations that affect the national economy, but which cannot eliminate 100% the effects of the destabilizing phenomenon. Only discretionary, monetary and budgetary interventions are likely to fully restore normal balance (Samuelson, 1977). The main instruments of a discretionary budgetary policy, respectively of programs that involve explicit official decisions, consist in: assisting public works programs and other collective investment programs; differentiation of the amount of public transfer expenses; the modification of the tax quotas according to the evolution of the economic cycle. Discretionary interventions have the effect of modifying the ratio between public revenues and expenditures, which affects the financial balance.

The objectives pursued by the state through its action on the economic interest of a given community or its members individually differ from one group of countries to another and even from one country to another and from one period to another. Therefore, the financial levers are used differently. Thus, in the states with a liberalized economy, the financial methods and instruments, such as taxes, customs duties, revenues from public enterprises and properties, subsidies, transfers, etc. are no longer neutral, but are widely used by the state to intervene in the economic and social life.

The taxes, respectively the levies on prices and incomes, cease to serve only to cover the expenses of the state apparatus, but they gain a wider significance, becoming one of the regulators and engines of the economic mechanism, thus ensuring a certain correction and orientation of the market mechanism. The tax becomes an essential instrument of the state's economic and social policy. The tax serves to balance the economic and financial power of the private entrepreneurs, confers a power of action on them, which limits their own prerogatives; the power of the state to impose is opposed to the power of entrepreneurs to invest (Duverger, 1988). The tax reduces consumption during the shortage or when the national economy knows inflationary processes and stimulates it in different situations; also, the tax is a useful tool of the policy of full employment. With the help of taxes, the state influences one phase or another of social reproduction - the increase of production in certain economic branches, the implantation of economic units in certain geographical areas, the organization of industrial enterprises or agricultural exploitations of certain dimensions, acts on consumption by reducing the solvency demand, influences foreign trade, a purpose for which, together with taxes, the state uses import duties and consumption taxes; the latter are reduced to such an extent on commodities so as to bring significant budgetary revenues without following the prohibition of imports; in contrast, the taxes and duties levied on commodities with a dual source of supply are significantly higher to prevent access to foreign products. The customs duties are also differentiated according to the degree of processing of the imported products. However, to protect domestic producers, the states also use non-tariff instruments.

Regarding the implications of the revenues from public enterprises and properties, it should be specified that prices and tariffs that often fall below market or equilibrium prices, and sometimes even below, are often practiced prices and rates which are below the market price or balance, and sometimes under the level of costs, and when supplying public enterprises with raw materials, materials, energy, equipment, etc. there are no rare cases when prices above the market level are accepted. The minus of receipts and the increase of cost, ultimately diminish the revenues of the public enterprises, by practicing prices and tariffs that aim to redistribute the net added value from the public sector to the private sector.

The economic activities are also influenced by directing the public financial funds to various beneficiaries. Thus, through the purchase of goods and services for military purposes, the maintenance of administrative and police bodies and the functioning of educational, medical and other public institutions, the state influences the conditions of production and distribution. Through the salaries, pensions, aids and allowances paid from the national public budget, the conditions of the redistribution of a part of the internal product between spheres and fields of activity, between different social or socio-professional categories are influenced. Through subsidies granted from public financial funds to entrepreneurs with public and private capital, to restore the payment capacity, full or partial coverage of research expenses, financing of some developments or co-participation in capital, expert premiums, etc. the conditions of the production, the gross capital formation and the commercial changes abroad are influenced. The state often combines financing from public financial funds with lending by banks or borrowing by launching bonds on the domestic and foreign markets.

However, the use of financial levers also targets social, political or demographic objectives, as the case may be. For example, the collection of excise duties on tobacco or alcohol aims to limit or prohibit the consumption of the respective products; the financing from the general public funds of the general and compulsory education and the granting of scholarships favors the broader coverage in various forms of education; the granting of tax reliefs or other material advantages to social categories, on the account of public financial funds, around the elections, receives an obvious political temptation, namely the winning of the electorate by the parties that make up the government coalition.

In the practice of the states with a liberalized economy, the financial levers are usually used in correlation with other financial levers: the money issue, the discount rate, the prices and tariffs, the exchange rates, the payroll and the depreciation systems, etc. In developing countries, the use of financial levers acquires certain peculiarities, often caused by mismatches that exist between the financial methods used and the objectives pursued.

Thus, in a number of countries in this group, there have been adopted tax systems practiced by the developed states under whose domination they were, a takeover that proved uninspired, because the production is carried out in small and very small units, which are not keep track of expenses and incomes. In the medium and large size units, the specialized personnel in the management of the record of taxable income are missing, to which is added the lack of interest of the managers in order to reveal the real results of the activity to the fiscal bodies.

To eliminate such situations, some countries have opted for simplified taxation systems: capital taxes, lump-sum taxes or taxes based on external criteria for defining the taxable object. However, such systems do not take into account the economic power and the social status of the payer. Other states have introduced their own tax systems, which, over time, have been outdated. Through the use of financial leverage, the developing countries aim to stimulate the increase of agricultural production and the efficiency of agricultural activity (Văcărel, 1988).

In addition, prices and tariffs, credits and interest, subsidies and transports from public financial funds, etc. are widely used to solve pressing economic or social-cultural problems such as: liquidation of illiteracy, training of national cadres, eradication of endemic diseases, healthcare to most population. To stimulate the agriculture, different solutions were envisaged, of which we mention: the imposition of the normative income, established at a level lower than the usual one in the years with less favorable natural conditions; the imposition of the potential income, obtained if an agricultural exploitation worked under optimal conditions. The agricultural tax stimulates the producers to exploit the land in such a way as to obtain the best possible results.

In order to encourage foreign capital investments, the state grants to foreign or joint venture companies exemptions to the profit tax in the first years of operation, tax reductions for another number of years, exemptions or tax reductions for the import of technical capital for investments, raw materials and materials intended for the production or export of finished products. When the product is used on the domestic market, some states grant reductions in the consumption taxes. These facilities are granted the right of accelerated depreciation of the fixed capital, of the distribution of the profit realized at the conclusion of the balance sheet, respectively of the capital invested in the liquidation of the company.

The relations with the foreign countries are encouraged for financial reasons (the procurement of tax revenues by imposing imported or exported goods, as the case may be, foreign exchange (limiting imports and stimulating exports and activating, in this way, the balance of external payments) and protectionist (defense of national production) reasons. The protection measures promoted by the developing countries are different from those of the developed countries in that they follow the achievement of new economic structures and are not discretionary. At present, some methods, techniques and financial instruments corresponding to the transition period towards the liberalized economy have been adopted in Romania.

The public financial resources, first of all, the budgetary resources, are obtained in the following ways: taxes on the global income, the tax on the profit, the value added tax, the excise duties, the customs taxes, various taxes and local taxes, contributions for the social insurances, the insurance premiums, the state loans, etc. For the distribution of public financial resources to the beneficiaries, the state uses: budgetary allocations for financing some public investments, maintaining public institutions and for financing some actions of national interest; subsidies to complete the own resources of some economic units and public institutions; transfers to certain natural persons with definitive and non-refundable title; short-term loans for production and sales; medium and long term loans for investments, etc.

The objectives pursued in our country with the help of financial levers are aimed at production, distribution or consumption, as the case may be. They stimulates the production in the economic branches and in the profitable economic units, the restructuring and re-technologicalization of the branches and the units considered viable, the development of the social sectors that can prelaunch the Romanian economy, increase of export or limit of import, better use of raw materials and labor on the external market, increase of quality and competitiveness. For this purpose, taxes, customs duties, budgetary allowances and subsidies are used, as well as prices and exchange rates. By the same means, the non-productive and productive consumption undergoes profound structural changes such as: replacing old ones with more modern ones; replacing products from classic materials with those of substitutes; replacing serial products with those made on demand.

## 4. CONCLUSIONS

However, the financial levers are also used to sanction the economic agents for the non-observance or non-fulfillment of some legal or contractual obligations. The most common situations are: the impossibility of the economic agents to set up their own funds on account of the profit if the amount remaining after the payment of the tax is insufficient; early withdrawal by the bank of credits in case of changing the destination for which they were granted; the application of increased interest for loans repaid at maturity; the collection of increased penalties for loans repaid at maturity; collecting penalties for non-delivery of the contracted products, failure to comply with the assortment structure, the agreed quality or other contractual provisions; collection of penalties and for non-payment of amounts due to the state.

The economic sanction determines a certain diminution of the advantages that the economic agents would have obtained if such situations had existed. The way in which the public finances are involved in the fulfillment of the functions of the state is reflected in the financial policy, which results from the presentation of the main areas that fall within its scope: the procurement of the public money funds necessary to fulfill the set objectives, that is to say the public revenues; the distribution and use of public money funds, respectively public spending; lending to independent governments and companies with state, private or mixed capital; lending to the population; state insurance of goods and persons; state social insurance and social protection; the level and structure of budget revenues and expenditures; the basic criteria of the organization and functioning of the financial mechanism; the elaboration and use of fiscal policy; contracting and repayment of state loans; making revenues from public areas.

We may deduce from here the main objectives of the financial policy in Romania, namely: ensuring the state's revenues in accordance with the potential of the economy and with the objectives of economic and social policy that are part of the bodies of public authority; making the state's expenditures at the level and structure provided under conditions of maximum economic-social efficiency; ensuring the financial, monetary and currency balance and ensuring the stability of money; strengthening the financial control and improving it, as well as emphasizing its preventive side; managing domestic and external public debt.

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