

COMBATING FINANCIAL CRISIS. ROLE OF BANK CREDIT AND FISCAL POLICIES

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Rezumat: *Punem în discuție turbulențe pe care Terra nu le-a mai întâlnit, în toată amplitudinea lor, de la marea recesiune a anilor 1929-1933, când președintele SUA Franklin Roosevelt, abandonând politicile privitoare la non-intervenția statului în economie, a indus și implementat teoria statului care-și asumă responsabilități în revigorarea economiei, depășirea crizei și începutul unui nou val. Suntem țarași puși în fața acceptării doctrinelor economice promovate după cel de-Al Doilea Război Mondial referitoare la sisteme de intervenție a statului în direcția satisfacerii nevoilor fundamentale ale cetățenilor, apărute atunci sub denumirea de Welfare state (stat-providență), ca efect al mecanismelor pe care piața nu a fost în stare să le realizeze singură. Evident că dereglările majore, cu reverberații în plan mondial, nu mai sunt acum rezultatul conflagrațiilor militare, ci avem tot mai mult convingerea că sunt derivatele unei deraieri de la cerințele raționalității economice, ale prudențialității și respectării loialității jocului actorilor, mai ales pe piața de capital. Și totuși, ce trebuie, ce putem să facem?*

Abstract: *We discussed the turbulence that Terra has not met in all their magnitude, from the great recession of the years 1929-1933 when U.S. President Franklin Roosevelt, abandoning policies regarding state's non-intervention in the economy, induced and implemented the theory of the state that assume responsibilities in the economic revival, overcoming the crisis and the beginning of a new wave. We are again put before the acceptance of economic doctrines promoted after the Second World War regarding the system of State intervention to meet the fundamental needs of citizens, appeared then as the "welfare state" (state providence), as an effect of the mechanisms that the market have not been able to perform itself. It is obvious that major disturbances having consequences worldwide are now no longer result of military conflagration, but we are convinced they are a derailment from the economic rationality, from prudence and respect of the fair play, especially on the capital market. And yet, what should, what can we do?*

Key words: combating, financial crisis, bank credit, fiscal policies

FINANCING OF FUNDS REQUIRED ON BANKING AND NONBANKING CREDIT BASIS

1. Free movement of capital – part of the status of the International Monetary Fund and of the policies of globalization

**Need or lack of banking and/or nonbanking entities having local capital*

- the liquidation of BANCOREX

- the privatization of The Agricultural Bank, The Investment Bank and The Romanian Commercial Bank.

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****EXIMBANK and CEC BANK – players on the capital market – the need for psychological standards of reference.***

Free movement of capital in search of profitable investment, including the IMF's consisting of contributions on behalf of its members, hasn't had and does not have the same objective for the borrowers. History of IMF policies and relations with countries in need, primarily with those weak or developing, has not always shown positive remarks.

If we mention the stand by agreements concluded with Romania after 1989 for structural loans, not necessarily significant in terms of amount, we do two appraisals:

a) necessary constraints to meet the financial discipline parameters in a pioneering stage;

b) situation, as hypocritical denial of our own projects on which the previous year 1989 it insisted. For example, I refer to finance the creation of poultry farms that went under unprofitable entities, consuming budgetary resources in the form of grants. As a result Romania abolished them while our neighbours in the West have proceeded to the establishment of such units.

Is an example and, unfortunately, not the only one in Romania, in Africa or South America.

The examples mentioned above do not prevent me to appreciate that an agreement with the IMF determines a usually reliable rating in the international financial markets reports and those with potential direct investors. I said "usually reliable rating" whereas the 6 scoring requirements test made by the IMF in the days preceding, Romania, along with Lithuania and Bulgaria, are classified as countries with the highest risk.

Fierce competition for the conquest of the financial and the money market taken improbable forms in recent years, lack of elementary and basically principles of prudence, although The Basel Committee has successively issued the MINIMUM REGULATED CAPITAL ADEQUACY REQUIREMENTS such as:

1988 Basel I (enter into force in 1992)

1996 Correction Basel I (the incorporation of market risk)

1998 Brief comments for interpreting the elements of capital

2007 Basel II, having the general structure:

- Pillar I Minimum capital requirements

1. The principles of calculating minimum capital requirements

2. The minimum requirements

- Pillar II Surveillance of capital adequacy

1. The principles of the surveillance of capital adequacy

- Pillar III Market discipline

1. Publication and external reporting requirements

In response to implementation of the recommendations of the Financial Stability Forum (FSF), in September 2008 the Basle Committee issued the “Principles of management of liquidity risk and prudential surveillance”, where, among the 17 principles set out, the fundamental one shows that:

- “Each bank is required to define and maintain a prudent management of liquidity risk.” How have banks responded to these requirements?

Those from U.S.A. has ignored them, having their own views, going to trigger, by mutual issuance and guarantee, real estate mortgages that couldn't be settled anymore.

Those from the The Old Continent, joined the Basel II principles, applied them as more convenient for them, not for the prudential principles.

Subsidiaries in Romania, despite the serious even rigid surveillance of National Bank of Romania, they competed in unorthodox marketing policies, such as:

- credits only on the basis of the identification documents;
- loans with 0% interest and others.

Warning: the Competition Council, for such type of unfair competition advertisements and inducing recipients to deceive, didn't interfere.

Nationally still remains quite confusing, even being rated as taxation, the liquidation of specialized banks such as Bancorex, Agricultural Bank, Investment Bank, and the Romanian Commercial Bank.

At the annual conference of the World Bank in the autumn of 1996 held in Hong Kong, Bancorex awarded the diploma of excellence, being considered one of the solid banks not only national but also international, through its subsidiaries. In spring 1997, by Ordinance of the Romanian Government, this bank was liquidated.

Its absorption in the Romanian Commercial Bank has been made through a cascade of Governmental Ordinance. I do not want to be understood, in no way, that I exclude any possible subjectivity in investing some credits in preferential destinations, but I do not forget that the majority of outstanding loans were owed by the Romanian government for loans accessed by the autumn of 1992 in

particular, in 1993 and 1994 for imports of gas and hydrocarbons.

Agricultural Bank has been removed from the circuit, psychologically discussing by the statement made in the media by the Minister of Finance in spring 1997 for a “black hole” of about 700 mld. lei without specifying that an amount was owed by the Romanian government for imports of planned cereals vital for the population. I recall that in November 1992 the state’s reserves had wheat planned for 10 days.

The 5 Financial Investment Companies, each holding 6% of the share capital of the Agricultural Bank, meaning a total of 30%, offered to buy the entire capital, thus leaving a bank with local private capital. The politicians were dissent or they were forced to adopt another solution: the Agricultural Bank sale to a “strategic investor” from abroad (from Austria, as you know).

I can make similar remarks about the privatization policy of The Investment Bank and The Romanian Commercial Bank.

After the liquidation in respective the privatization of above mentioned banks, considering the principle of free movement of capital, worked and operated without forbiddance “the repatriation of profits” concept.

Recently, Romania has concluded agreements and is about to contract external loans of about 20 billion Euros, of which about 13 billion euros from the International Monetary Fund to support the national currency, and the difference from the European Community to cover the budget deficit with only productive destinations, not for consume.

During the passage of the financial economic crisis, taking into account the resources already mentioned, the expected relaxation by reducing the minimum reserve requirements held at the National Bank of Romania and making available increased liquidities for commercial banks:

- will be targeted, as would be natural, to credit for production of goods, works, services and agricultural;
- creating new production capacity and facilities (machinery and agricultural machinery, machine oil, motor milestones etc.).
- financing investment projects timely and expected, such as Bucharest Danube canal, the irrigation system Siret-Moștiștea, the 3 atomoelectric groups in Cernavodă and so on?

Or increased liquidity will take the path of parent banks in Austria, France, Greece and other, being no restrictions and no real possibility of restricting on the channels of national authorities.

CEC Bank – the bank of population and EXIMBANK are and must remain the reference standards of stability and trust of individuals and companies. They are and must remain state's entities that can interfere, with compliance with the requirements of the capital market, as regulator and moderator.

2. Policies to encourage the concentration of free local capital in banking or non-banking entities

The Financial Investment Companies – potential investors for a local banking institution with performance rating.

Non-banking financial institutions, cooperative banks and especially Mutual Aid Houses, real retail entities for consumption credit (with the example at the Employees' National Union of Mutual Aid House).

The Employees' Mutual Aid Houses system in Romania addresses to a segment of population with medium or low permanent incomes. It is characterized by the fact that it never dropped to maintain the basic principle of lending – PRUDENCE – and therefore to the requirements of security, solvency, efficiency and suitability of assets, maintaining the adequate liquidity.

Here are a few significant indicators to the end of the financial year 2008, of the Mutual Aid Houses: capital over 344 mld. euro, productive assets over 1,353 mld. lei (over 339 mil. euro), number of members (customers) 1,002,484, number of loans 545,470, granted loans to members (individuals) over 1,760 mld. lei (over 441 mil. euro).

Relating to the rates of efficiency not only they fall within the requirements of Basel II, but some are superior as regards both their capital adequacy, and coverage of lending and current liquidity.

NOTE: 1 euro = 3.9860 lei; 1 USD = 2.8054 lei on December 31st 2008.

By magnitude and increasing professionalism, this financial market participant with exclusively inland capital, replaces for a good while the banks' abstention in lending the individuals and it will do it more efficient in the future.

3. Targeting the bank credit object mainly to finance production of goods and agriculture.

**** EXIMBANK's interest policy in the necessary import and expansion export fields, the balancing tool of the current account.***

Stringent interests for imports or exports that are not important for the national economy

Encouraging interests for imports and exports that are important for the equilibrium of the trade balance.

The example of EXIMBANK U.S. policies is enlightening for the statements above, even if it appears to be protectionist or not in accordance with a “free market”.

We consider the free competition through interest, the cost of lending services operations, negotiable in the consensual contract between lender and borrower, both having interests and benefits which are harmonized at the conclusion of such financial transactions.

The conclusion I want to draw from those set so far is that of encouraging local capital for the construction of the national banking system.

In support of this requirement I do not say anything new when I recall that a country “banking system” is similar to human “cardiovascular system”.

Through the privatization of Romanian banks which we have referred above, we conceded to someone else the main organ of the cardiovascular system – THE HEART – “the arteries” remaining to be vascularised according to the will and interests of those who have “the heart” (parent bank).

II. TAXATION AND FISCALITY

Basic distinction

Imposition – fiscal policy – it occurs mainly by excessive increase of fees and taxes collected from the population, having the effect of lowering the standard of living (of purchasing).

Fiscality – all legal rules that define the collection of revenue through direct and indirect taxes, fees, in the process of distribution and redistribution of gross national product.

Fiscality level = $(\Sigma \text{ taxes} + \text{ fees}) / \text{Gross Domestic Product (GDP)}$

Forfeit – from old French “fur” = tax (fee)

1. Clause of a contract that fix the price of the service to an invariably amount
2. Evaluation by fisc of the revenue or turnover of taxpayers starting from certain significant items.

It is unacceptable that heads of government have confused the concepts mentioned above, and put, with serenity, in visual media, equal sign between them.

The highest government official told us that taxes and fees are economic financial categories of the same kind and value.

Even if it seems to be scholastically, I bring back to the attention enumerable at least, the principles of taxation, namely:

- a) equitable taxation (fiscal equity);
- b) the certainty of taxation
- c) convenience of collection of taxes
- d) tax return

Resuming the first principle, that of fiscal equity, we have to consider:

- setting minimum allowances;
- burden determined by the power contribution of each payer;
- burden has to be determined in comparison with that of another person of the same social category;
- taxation to be general.

In local fiscal policies, predominate the principles of the convenience of collection of taxes and of the tax return in the sense that:

- the vast majority of taxes are determined and paid to and from source, either by the source restraint (restraint and pay) or by calculation and pay
- the payer is actually a tax agent, unpaid, of the fisc, which means that the state's costs are minimal from this point of view.

In terms of tax fairness, I cannot consider that the requirements are met, as set out above, either as regards the practice of flat 16%, the expected "flat-rate tax" and "neutral" VAT.

The single rate tax violates the minimum non-taxable requirement, the contributory power requirement of each payer and the comparison with the same social category, favouring those with higher incomes;

The flat-rate tax – anticipatory, personal direct tax, which starts from the presumptive turnover or incomes, actually suppressing the 16% effective profit single rate tax, will lead to the liquidation of many microenterprises;

"The neutral" VAT, which is proportionate percentage share of tax, the same for any final user, did not and does not take account of the power to contribute of the payer. Same rate/product, work or service will pay the one who obtains income of 300 lei/month, as well as the one who obtains 10,000 euro/month. The same situation is in the case of duty for electricity.

Fiscal policies of the Member of the European Union and beyond, where they practice this type of "tax on consumption" (indirect tax) consider the principle of fiscal equity (equitable taxation) in the sense that they applied the proportional policies, differentiated not only for medicines, but also for:

- basic foods for maintaining the biological integrity of the people;
- drinking water provided
- services and works necessary to maintain habitat and reduce energy consumption etc.

The fact that the vast majority of tax is payable by an another person than actually incurred is called the indirect effect, which, as I said before, ease the state's task of collecting, for it remaining the task to control the equitable taxation and the respect of term of payment.

Besides the flat – rate tax, the fiscality adopted by our government in time of crisis, when taxpayer's incomes are reduced or even cancelled as a result of unemployment, the exit from unemployment, depleting of labour market, etc., passes into the area of imposition. It looks for new tax sources or increasing the mass already determined and subject to taxation, with significant examples:

- in the case of direct personal taxes
 - tax rate for wage income exceeding that of the President (90%);
 - rate of taxation for determinate the tax on residential buildings and buildings having other destinations.
- in the case of indirect taxes
 - excise duties in advance for cigarettes
 - increasing excise duties on other traditional consumer goods (distilled beverages, fermented) or coffee.

The question is simple. To exit from the economic recession do we need to boost the consumer demand or to restrain it?

The historical experience, leads us to the answer for first motivation that requires concomitant measures of fiscal loosening, not imposition.

For everything we want for the crossing this world trial with as bearable as possible sacrifices we need skilled professionals, committed and dedicated without any restrain to national interest.