



ELECTORAL POPULISM VERSUS ECONOMIC STABILITY

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Abstract

It is well-known that in election years, political parties compete in measures and promises that are more or less extravagant, designed to attract votes from voters.

The situation is understandable to a certain extent, this practice being common in other countries as well, important being not to “jump the horse” as unfortunately happens in Romania, where in four years the politicians, in their desire to obtain a mandate in local or parliamentary elections, replete with all kinds of promises, without regard to the impact that their application might have on the stability of the overall economy.

As the electoral legislation has become more stringent, attracting voters by giving them attentions and gifts (buckets, packages of food with sugar, oil, etc., or gourmet) was forbidden and election promises have climbed the first rung of the strategy of attracting voters.

On the other hand, the old local and central political structures at the end of their mandate try, for the last hundred meters, to adopt populist measures, hoping both to renew mandates and to solve personal interests relating to special pensions bonuses and all sorts of pecuniary advantages, according to the principle “after us the deluge”.

Keywords: *election; populist measures; political programs; economy; electoral alms; risks; economic slippage; economic stability.*

JEL Classification: *G₀₁, G₁₅*

Legislation Approved or Legislative Proposals Made During the Pre-Election Period with Major Impact on Budget

Among the measures approved or pending approval by Parliament in the pre-election period with significant influence on budget expenses we mention:

- Increase by 15% of the basic salary in education and health services, since January 1st, 2017 according to GEO no. 20/2016, appealed at the Constitutional Court of Romania and declared constitutional;



Issue 1/2017

- Recalculation of allowances for medical staff to the level of the salary in 2016, while increasing by 25% the level of the basic salary from the National Social Insurance House;

- Multiple negotiations between the government and the unions on increasing minimum wage per economy to approx. 1500 lei/month, increase which has already been approved at the level of 1450 lei/month;

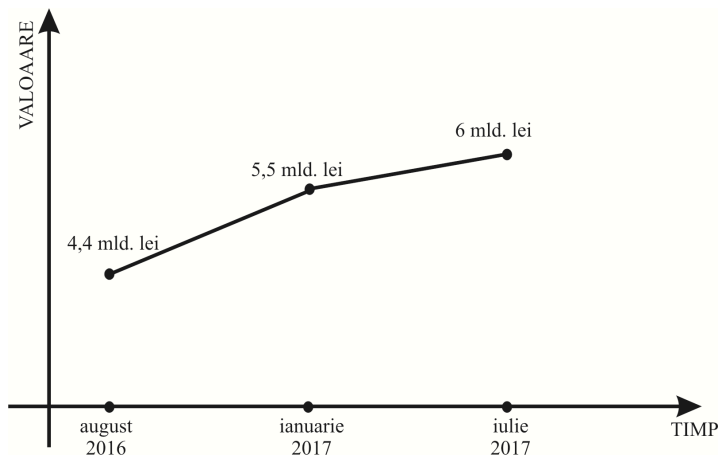
- The increase in the pension point from about 32% to 40% with effect from January 1st, 2017 and by 1st of January 2017 to 45% of the average gross wage in the economy and hence pensions by 25% in the first phase and another 10% in the second stage;

- The increase of pension for farmers from 300-400 lei/month to at least 520 lei/month.

Legislative proposals on pensions alone would have an impact of over 16 billion lei per year on social security budget expenditure, which already is deficient of approx. 18 billion lei for this year.

Graphic evolution of the budgetary effort determined by the increase in pensions (see Chart no. 1) is as follows:

Chart no. 1



Source: Capital Magazine, Oct 7 2016. Author: Răzvan Amariei

- The increase of meal vouchers from 9.41 lei to 15 lei;



- Growth of parental allowance;
- Approval of special pensions for MPs based on the number of mandates (that has become effective from August 1st, 2016);
- Special pensions for local officials – appealed at the Constitutional Court of Romania and declared unconstitutional.

Implementation of legislative proposals (some approved, others under discussion) prepared in the pre-election period on salary increases, bonuses and allowances other than pensions would have an estimated impact on public budget spending of about 10 billion lei annually.

Main Economic Measures Contained in Electoral Programs of the Political Parties

Although at the parliamentary elections of December 11th, 2016, about 16 thousand candidates, virtually all affiliated to the political parties and several independent ones, were registered, in our analysis we will focus on the economic measures designed to attract votes from the programs of the two main political parties on the Romanian political scene, namely the left oriented Social Democratic Party (PSD) and the right oriented National Liberal Party (PNL) resulted from the merge of the old Liberal Democratic Party and the National Liberal Party.

PSD electoral program includes a series of populist measures, among which:

- Reducing the value added tax (VAT) from 20% today to 18% from January 1st, 2018¹;
- Elimination of taxation on pensions below 2,000 lei per month, starting January 1st, 2018, measure which has been approved by the new Government as of February 1st, 2017;
- Elimination of health insurance contribution for all pensions regardless of amount, a measure already approved by the new Government as of February 1st, 2017;
- Reducing the dividend tax from 5% today to 0% as from 1st of January 2018, which creates prerequisites for Romania to become a tax haven in this regard;
- Reduction of income tax from 16% currently to:
 - 10% starting with January 1st, 2018;

¹ According to the Tax Code, VAT is to be reduced from 1st of January 2017 to 19%, measure already approved by the new Government at the beginning of 2017.



Issue 1/2017

- 0% starting with January 1st, 2018 for taxpayers who achieved an annual income less than 24 thousand lei;
- Reducing tax on turnover to 1% from 1st of March 2017 for micro-businesses (those up to 9 employees included), while increasing the annual limit for admission to this category of turnover volume from 100 thousand euro now, to 500 thousand euros.
- Reduction of profit tax for research from 16% at present to 0% from 1st of March 2017 following the facility to be maintained for a period of ten years;
- Reducing VAT on sale of housing from 5% today to 0% starting March 1st, 2017;
- Reducing VAT on agricultural raw materials and services in agriculture to 0%, starting with March 1st, 2017;
- Removal with effect from January 1st, 2018 of the tax on agricultural land which at present is 46 lei/ha;
- Removal with effect from January 1st, 2018 of the tax on cars with a cylinder capacity of less than 1600 cc, motorcycles, vans, buses, tractors, trailers, cargo means of transport;
- Removal with effect from January 1st, 2018 of the tax on transfer of property worth more than 200 thousand lei and a reduction to 3% for those with higher values than 200 thousand lei. The new Government has already approved the elimination as of February 1st, 2017 of the tax for real estate transactions costing less than 450 thousand lei;
- Cancellation of 102 non-fiscal taxes, as of March 1st, 2017 (the environmental tax, taxes at the Trade Register, radio-TV fee etc.). Approval law was debated by the Romanian Constitutional Court and was declared constitutional.

PNL electoral program includes some populist economic measures, such as:

- Reducing VAT from 20% today to 16% and its alignment with the flat tax rate;
- Generalization of the flat tax rate of 16% for the contributions paid both by employees and employers;
- Eliminating taxes for all pensions;
- Reducing the number of taxes by 50%;
- Increasing base of taxation and budget revenues by taxing in Romania the profits and revenues made in our country by big companies (corporations, international and multinational groups);



- Introduction of fiscal facilities for companies and firms with more than 1000 employees;
- Providing fiscal facilities for companies that carry out social projects (nurseries, kindergartens, school and after school activities, etc.);
- Halving the income tax for families with at least three children, the facility will be maintained for both parents until the third child reaches the age of 7;
- Increasing child benefits from 84 lei/child at present to approx. 200 lei/child.

Impact of the Measures in the Electoral Programs on Economy as a Whole

Of course raising the general standard of living, increase in welfare is an intrinsic goal of any type of society in general and each individual in particular, the action being essentially non-objectionable.

The ways, the dynamics, the levers used to achieve this goal and, especially, long term sustainability of concrete measures to achieve economic and social policies is the object of our analysis.

Here, in Romanian, there is an old saying: “Do not lie more than your blanket” to which I would add not to consume more than you produce, don’t borrow more than you can repay, do not spend all the money obtained and do not forget to save “rainy days money”.

An overview of the electoral programs of the two main political parties in Romania highlights several conclusions:

- Both programs include populist measures, even if a party (PSD) is left-oriented, and another (PNL) is right-oriented, producing a mixture of doctrines;
- The PSD electoral program is focused especially on SMEs and micro-enterprises, the implementation schedule being phased for the years 2017-2018;
- The PNL electoral program is focused on large corporations and family;
- Both electoral programs are populist, but the PSD program addresses more disadvantaged entities (pensioners, farmers, micro-enterprises) and is aimed at broader categories of voters, which is the main reason why the PSD achieved an electoral score of approximately 45% of the votes casted in the elections of December 11th, compared to only approx. 20%, score obtained by the Liberal Party.

The impact of the legislative initiatives (approved or pending approval), and measures of electoral programs of the two main political parties on the economy as a whole will result in a rise in spending of state budget and social insurance budget, while diminishing budget revenues by reducing or eliminating



Issue 1/2017

some taxes, representing a net negative influence that will jeopardize the positive evolution of the Gross Domestic Product (GDP) registered by Romania in the post-crisis period, according to Table no. 1:

Table no. 1. GDP evolution in the post-crisis period

Period	GDP Value (billion lei)	% compared to previous year	GDP Value (billion euro ²)
2014	669,5	+2,9	149,3
2015	710,3	+3,7	156,9
2016 (estimation)	740,1	+4,2	164,4

Source: Own calculations by NIS and NBR.

In order to support, at least on paper, the implementation of measures proposed in the campaign, PSD based its economic program on a GDP of 815 billion lei for 2017, with approx. 10% more than the estimated GDP to be achieved in the current year, the provided growth rate being unrealistic and a level of budget deficit of 2.95% of GDP.

The impact of the populist measures contained in the electoral programs will hardly affect the budget deficit that must be maintained within 3% of GDP to meet the country's agreements with the European Union, in which it has been a member since 2007.

The estimated level of budgetary expenditure increase resulting from application of the legislative initiatives (approved or pending approval) and of the measures contained in the electoral programs of the main political parties amounts to approx. 30 billion lei, of which:

- Approx. 18 billion lei on account of the budget of state social insurance (pension increases and the like);
- Approx. 10 Billion lei on account of the state budget (increase in salaries, allowances and other equivalent rights);
- Approx. 2 billion lei on account of the state budget (central and local), reductions, elimination of contributions, fiscal and non-fiscal taxes, etc.

² The conversion was made based on the leu/euro rate at the end of each period included in the analysis.

Issue 1/2017

These additional costs are approx. 4% of the GDP estimated for this year, to which, if we add the current budget deficit of approx. 2.5 p.p., we reach a cumulative budget deficit of over 6% of GDP, double of the level stipulated in the accession partnerships to the EU and the Treaty of Maastricht.

Economic slippage risk is also amplified by the unfavourable situation in which Romania is compared to the EU average in terms of specific indicators (see Table no. 2), for which:

Table no. 2. Comparative indicators

Indicators	Romania	EU average
No. of employees/No. of residents	25%	45%
No. of state employees/No. of employees	24,5%	15%
Work productivity	5,6 €/h	36 €/h

Source: Own estimates following EUROSTAT, EC, NIS data, taking into account a total population (according to their home address) of 22.2 million inhabitants, a number of 5.55 million employees, of which 1.36 million state employees.

Although in recent years, Romania's economy recorded positive developments with some of the most dynamic growth rates recorded by the EU countries we are still far from the European average, all the more so from developed countries in the EU, with a small number of employees reported to the total population, more than a quarter of those working in the budgetary sector. This situation casts doubt on the reality of official figures on unemployment in Romania, further emphasizing that we are a country of social assisted people.

The worst situation is recorded in the labour productivity indicator in Romania which is approx. 6 times lower than the European average, and almost 10 times lower than the level of labour productivity in developed countries of the EU.

The implementation of provisions in electoral programs of the political forces which won the parliamentary elections on December 11th, 2016 puts the new Government in a difficult situation, already having introduced measures, designed to attract additional funds to the state budget, but which were not spoken of in the electoral campaign, such as:

- Elimination of the limit of 5 average salaries in determining the contribution to the social health insurance;
- Levying contributions for social health insurance for persons who derive income from investments (exclusively);



Issue 1/2017

- Introduction of a new tax of 8 lei/ton of garbage;
- Possible introduction of progressive income taxation etc.

Conclusions and Proposals

▪ In Romania, more than in other European countries, election years generate actions with populist character from the political class in a bid to attract more votes, requiring greater accountability and a more realistic view of planning electoral programs and the unification, in perspective, of the parliamentary and presidential elections, in order for fewer years to be lost on the path of socio-economic development of the country;

▪ The implementation of initiatives and electoral proposals (some already approved) would have a major impact on the increase in spending and reduction of budget revenues, which would substantially increase the current budget deficit of approx. 2.5% of GDP to over 6% of GDP, twice the accepted level of 3% in agreements with the EU;

▪ “Tel-quel” implementation of electoral promises could lead to a serious economic slippage and to the discontinuation of the favourable and stable evolution of the country’s economy, registered in the post-crisis period. However, medium and long term growth of economic and social development of Romania would be compromised, as well as its proximity with EU developed countries, including in terms of standard of living and quality of life.

▪ The implementation of electoral campaign promises is accompanied by the perverse action of the present administration to introduce new taxes that has not been spoken of before the elections of December 11th, 2016.

▪ Together with measures of moderate and sustainable growth of incomes of the population (employees, retirees, minors) it is necessary to increase concerns among economy and policymakers to ensure the rapid growth of labour productivity, number of employees in total population and the reduction of bureaucracy and the budgetary apparatus which supports it.

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Issue 1/2017

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Issue 1/2017

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