The Fiscal Governance Treaty - the Recent Act in the European Play

Monica SUSANU
susanu_mnc@yahoo.com
Dunarea de Jos University of Galati, Romania

The new paradigm that affects the current doctrine is particularly focused on building a strong community and it is also motivated by the intention of saving the Lisbon Treaty with its establishing the European Constitution. In the series of the numerous leading up steps required to achieve this goal, approaches the studies on the concept of sovereignty are necessary for clarification, given that in this way only the Union can be setup as a person - on the one hand, and - on the other hand, this is the basis of ensuring coherence between European political order and sovereignty / autonomy of national institutions. Bitter experiences of radical nationalism which culminated in the disasters of the Second World War led to the conceptual reconfiguration of the sovereignty, gradually replaced with a new expression, the super nationalism. Moreover, in order to hindering the possible future recurrence and the temptation to concentrate all the available powers at certain national governments' disposal only, a comprehensive course of division of sovereignty was designed, as an optimal strategic alternative in ensuring the durability and sustainability of the European federalist model. In terms of economic integration and trade globalization, the taxation of a state has a rapid impact on another state, so that the rapprochement of the global tax policy, as well as the need to harmonize tax systems across countries are increasingly spoken about. Although that these measures can upset all tax systems deeply changing the approaches regarding both fiscal and political states’ sovereignty, in the current situation, such an unforeseen development is inherent. Therefore, each step meant to approach the full integration of the community raises special efforts for consensus actions and strongly motivated as well, by a very special interest at the highest level of the macroeconomic and political decision.

1. Conceptual outlook

According to a generally accepted definition, the concept of sovereignty refers to the quality of state power to decide on all domestic and foreign affairs, while respecting the same feature of other states, and all other rules generally recognized in international law.

Sovereignty involves the conjugation of the following two structural components:

a) Internal sovereignty, meaning the right of state power to decide without any other social power's restriction in all economic or social, political and legal field;

b) External sovereignty, i.e., the state's independence meaning that state's same powers, fully and unconditionally exerted abroad.

Furthermore, taking into account the boundaries of the sovereignty, in the European Union great importance is granted to the correct application of the two derived concepts - principles already established above, namely sharing the competences and subsidiarity principle.

By joining the European Community, Member States have partly given up their both internal and external sovereignty in its favour. In this case, it became necessary to determine the competence which the Member States have conferred the Community and respectively - the skills that they have still preserved for themselves.

Hence, there is problem of sharing the competences [1], which could be consequently:

- Community's exclusive competence;
- Member States’ exclusive competence;
- shared competence between the Community and the Member States.

In principle, the Community is competent to exercise the internal sovereignty only in the areas which are specified in the Treaty, i.e. explicit, but also in areas where internal competence is implicitly recognized, i.e. implicit internal competence.

Considering the external sovereignty, the Community is competent in those areas specifically provided for in the Treaty, but based on express or implicit mandate. Even in the areas where the Community has exclusive competence, the Member States have still a residual power and also are entitled to implement the Community rules at the national level.
As the centre of gravity of all even inaugural approaches and negotiations concerning the European Economic Community, *sharing the sovereignty* generated numerous debates and became the reason for many discussed, negotiated and finally accepted - compromises.

The issue of transferring the sovereignty was paid again attention to amid the upheavals felt just lately. In other words, the EU is talking about *pooling the Member States’ sovereignties*.

In the areas where the competences are shared, the Community's and the Member States' prerogatives shall comply with the *principle of subsidiarity*, which states that regulation should be as far as possible, the level of government that is closest to the citizen.

Therefore, even if it had jurisdiction to regulate, Community's action at the Community level is possible only the following conditions were met:

- Objective is not achieved at the level of Member States;
- Objective can be achieved at Community level;
- Community action scope is limited to what is necessary for that purpose.

Since the 19th century the characteristics of sovereignty were clarified, and it was considered as a criterion or an attribute of the statehood. Thus, meaning the independence towards the other states, the sovereignty is the state’s supremacy within a country. This issue is one of those controversial concepts and ideologies which have sparked and fuelled many debates, disputes and even world wars over time. Considering these events, the concept of sovereignty has significantly changed over time, but remaining essentially linked to a notion of state.

However, the extent of sovereignty, the sovereign competences and forms of achieving the sovereignty as well, are constantly changing, depending on the state’s functions, on the content of human and citizen’s fundamental rights and freedoms and, of course, depending on the state’s international commitments assumed in permanently fluctuating circumstances.

Approaching the general concept of sovereignty emerges the particular approach of the state’s fiscal sovereignty, meaning that national state’s omnipotence to design and apply those tax rules which are considered both appropriate and necessary. Determination of tax rules is related to what is commonly known as the royal prerogative and it is one of the major expressions designating the national sovereignty. But the free expression of national sovereignty legitimately could lead to the adoption of certain fiscal rules that favour certain tax competition practices.

As members of the European Union, a super-state body of regional type, there are situations in which Member States should yield some of their own revenues to the EU budget, such as the disposition of sharing their revenue resulted from VAT, customs duties on trade relation with non-member countries, agricultural levies or even part of GDP. But in all these cases, a voluntary transfer of own funds is taking place, and no political prejudice can be brought to the concerned State's sovereignty.

*Fiscal sovereignty* requires that each sovereign state had complete freedom in choosing its own tax system and establishes taxes and contributions, taxable stuff and tax rate, payment terms and taxpayers, facilities or penalties, as well as an administrative framework and an operational tax system.

On the other hand, national sovereignty is likely to be limited or even hampered by the tax competition between the third parties.

In other words, the coexistence of the fiscal sovereignties could generate progressively such a fiscal competition, which could finally suppress any sovereignty.

This is a very serious risk, given the excellence levies on highly mobile factors, such as corporate taxation, taxation of savings products etc. For these taxes should be a choice between maintaining of the absolute national sovereignties – and, thus, accepting the consequences of a fiscal competition, and violations of the national sovereignty, which consist in adopting the international rules, thereby limiting the exercise of fiscal sovereignty.

Each State should exercise its fiscal sovereignty under its undeniable attribute of self-determination and corresponding to its own policy objectives set by the government management. Hence, the *fiscal sovereignty* is inextricably linked to the *political sovereignty*.

On these premises, and despite the fact that the European Union seeks gradual creation of a unitary tax system, the Member States’ ongoing reluctance to intensify tax harmonization is fully justified, because it means a considerable abridgement of each national fiscal sovereignty. The explanation lies in the differences between the development stage of each economy and in a variety of other specific aspects.

As the harmonization of the indirect taxes is increasing and at rate more visible in progress, states’ involving in the direct taxes harmonization process does not exceed the threshold of official
declарations and commitments for future actions. In other words, it seems to be rather difficult for the states to give up their sovereignty or at least to reach the required amount for EU tax harmonization.

Taxation framework is consistently approached in the Maastricht Treaty [5], Articles 95-99 especially, and in all the agreements and arrangements that preceded this event as well.

But the necessary unanimity in voting and adopting fiscal regulations in the EU Council could rightly be considered a seriously deterrent tool to European fiscal harmonization. However, on all the occasions where there have been various changes or updates to other stipulations in the official documents, this provision remained intact.

2. Chronic of the European Fiscal Governance

According to authorized and credible reports [3], in each of the recent years the necessary amounts needed to cover the expenditure referred to in the general budget of the EU exceeded the threshold of EUR 100 billion, although progressive trend of increasing public expenditure occurs in each Member State constantly.

General budget of the European Union is built on the classic budgetary law scaffolding, including the well-known principles regarding the drawing up, approval, execution and, in particular, the control of the budgetary execution.

Budgetary principles are a set of regulations created as an adaptation to the community needs and to the national budgetary rules in force. Lately, specialized writings speak about a “budgetary Europe” [4], a new category that refers to the contents of a specific budget law, as the regulations adopted by the Community institutions, and to new budget processes, resulting in the establishment of such rules.

The budgetary procedure is subject to the rigors arising from the principle of the budgetary discipline, according to which, the European Commission ought to ensure sound financial management of Community resources, in cooperation with Member States, but without interfering on its own initiative on budgetary proposals of the member countries.

There are also differences between the Member States or even their non-compliance with the Commission’s recommendations, especially when much of the roof impermissibly exceeded the budget deficit, in which case the penalty proceedings are initiated. Beside the pause of 9 months accorded for the case of a state’s abnormality, the Treaty also provides for other gradually increasing sanctions and applicable to those states which ignore the rules for a sustainable budget deficit.

States are required herein to submit to the ECB a guarantee in a certain amount that is refundable, in principle. But in the case of an extended budget deficit for 2 years, that amount will remain permanently on behalf of the ECB.

Another penalty is the conviction for that state to pay fines. Continuing the same series of efforts meant to counteract some dysfunction in the Union’s finances, budgetary provisions included in in the Stability and Growing Pact and applicable from 1 January 1999 were drawing special attention, since EU’s first years of operation significant deviations from the agreed limit of the budget deficit stipulated in the Treaty were reported repeatedly.

In fact, since that time there has been a split in the EU Member States into three categories:

- **Good** Member States, referring to Luxembourg, France and the United Kingdom, whose public debt rate is about or below 60 % to GDP;
- **Mediocre** Member States, i.e. Spain, Ireland, Denmark, Sweden, whose debt ceiling was around 70-80 % of GDP, and
- **Bad** Member States, where there were Belgium, Italy and Greece, whose public debt to GDP ratio exceeded 100 %.

Strengthening the Community’s public finance system depends on maintaining a lower deficit and a debt within certain limits and control.

In March 2012, after months of stormy negotiations between major European leaders, after numerous formulations, debates and amendments, last generally accepted form of the European fiscal governance agreement was released and only 25 of the 27 Member States signed it. This new fiscal Treaty comes amid financial troubled events that provide a specific colouring of global crisis phenomena installed since 2007.

Since 1999, when the cornerstone was laid on top of Monetary Union by its members considered the founders of the euro area, there were many others who claimed their doubts and scepticism concerning this building. Developments that followed often stimulated creators’ enthusiasm, but the first signs of failure largely confirmed the sceptics’ fears. A very brief sequence of agreements and pacts concluded between politicians over time illustrated successively the complexity of their efforts and preoccupations in order to strengthening the Euroland’s stability.
2.1 - Stability and Growth Pact

As we know, in 1992 the Maastricht Treaty was signed and considered the cornerstone of a huge continental building. During the last two decades, this construction consolidated rapidly and based on thorough convergence of ideological, economic, financial and political criteria particularly. Currently, it brought up 27 European countries.

On the occasion of December 1996 Council of Europe that was held in Dublin, a political agreement between the Member States was adopted and named the Stability and Growth Pact, aiming to strengthening the future success of the monetary union, as this goal was consecrated in the original treaty. Pact purpose was to coordinate the national economic and fiscal policies within the monetary union, so that a climate of stability and fiscal prudence should be established and viability of monetary union premises was to be ensured.

The Pact was initiated on the German Finance Minister’s recommendation at that time, in the hope that it will be able to ensure continued low inflation policy that the German Government was driving successfully for several years. The reason for this requirement was that the anti-inflationary policy was taken several years, and its application guaranteed Germany’s strong economic growth constantly after the ‘50s. In other words, the German government intended to coerce European politicians’ partners in the EU to limit their temptation towards inflationary pressures in their economy. Therefore, the Pact’s provisions addressed as additional punctual constraints seeking EU Member States who signed the Treaty of Maastricht to continue to observe and fulfill the convergence criteria after joining the monetary union as well.

In addition, it reiterates that Member States should not exceed their budget deficit above the 3 % of GDP threshold considered reasonable, nor their public debt could exceed the accepted 60 % to GDP ratio.

According to the classical structure of any similar agreement either bi- and multilateral, this document includes a category of constraints and certain penalties for non-compliance. Therefore, according to the Pact’s provisions, the “excessive deficit procedure” was admitted as the main coercive instrument for those states that violated the convergence criteria. In general terms, the Commission recommended to the Council to take targeted measures against the State whose budgetary limits exceed the agreed values of the two deficits.

Despite the good intentions that led to the signing of this pact, the Euro-sceptics have been increasingly vocal and the economic, monetary and fiscal developments have stimulated their frequent expressions, as the first deviations were reported exactly in case of the European building emblematic Members, namely France, Germany and the United Kingdom.

In fact, right after the adoption of the Pact, the main criticism immediately aimed its excessive rigidity and the 2 arbitrarily set thresholds as well. Pact’s operational functioning was called in question, since several countries have breached the conditions, and the Council was unable to act specifically against the EU Member States founder themselves that initiated the Pact: France and Germany.

Therefore, in 2005, at the end of several rounds of talks between EU members, a thorough reform of the entire Pact was adopted, just after France and Germany brought to bear. These two countries initiated a campaign for a considerable relaxation of the rules, while the others, such as Austria and the Netherlands, proposed that additional control measures and procedures between Member States should be tougher.

The two deficits thresholds were not changed, but the Pact’s content was reformulated in a more nuanced attention on the operational Eurozone’s procedures:

a) Triggering the excessive deficit procedure - can not be started against that country which is going through a period of slow or negative economic growth; even the reference level of 2 % negative growth was taken into account, although it was unprecedented since the Pact’s enactment;

b) Relevant factors which exempts a state from the excessive deficit procedure - including the specific elements for a state that has a budgetary deficit more than the accepted limits, but temporarily. Among these factors are: Structural reforms, adoption of the programs for supporting the research and development and also the application of fiscal recovery measures;

c) Extending the time-limits before applying the excessive deficit procedure - it means that, instead of one year, states could use an extended term to two years to reduce the deficit considered excessive. Unexpected economic events with serious consequences for the budget enabled this extension, but states have to prove obviously the realities that make necessary the corrective measures for the deficits and they were committed to use the unforeseen fiscal revenues they have gotten in when the economic growth was strong;
d) Each state’s specific medium-term objectives - these were to be defined based on specific indebtedness degree and growth potential, meaning about 1% of GDP for countries with low debt and high potential growth, allowing zero or even a positive value for countries with high debt and low growth potential;

e) Reliable statistics provided by Member States - this favoured the growing of the resources and influenced EUROSTAT as well, an important European institution, with guaranteed independence and increased responsibilities;

f) Stability and convergence programs – the Euroland Member States are to prepare annual stability programs, while non-euro member are required to prepare convergence programs; by 1 December of each year, these programs will be submitted to the Commission and the Council, with the aim of ensuring budgetary discipline not only on the Eurozone level, but also generally throughout the Union.

2.2 - Euro Plus Pact

Amid the sovereign debt crisis became acute in 2010, Member States adopted a new reform in the coordinating methods, intending to strengthen the rules by adopting automatic procedures with point penalty against those countries that break the two deficits Treaty provisions. Euro Plus Pact was designed as a rigorous successor of the Stability and Growth Pact, as it was considered its implementation had not been consistent. The proposed measures were controversial not only because of their secretiveness, but especially because it stipulated impassable and rather stiffened targets.

Strengthening the competitiveness, increasing the employment, public finances sustainability and strengthening the financial stability were the four main approached areas. Tax coordination was the corollary of these four directions and appropriate measures followed.

Specifically, the Competitiveness Pact or the so-called Euro Pact is a plan set in 2011, whereby the Member States undertake a list of concrete policy reforms, under which each country wants to improve its fiscal strength and competitiveness. However, France and Germany have supported this plan to the Member States of the Eurozone as expected. One repeatedly said that it is a necessary successor of the well-known agreement named the Stability and Growth Pact. The Pact’s strategies should be annually updated, occasion on which, the participating States would express their highest level agreement concerning a set of certain measures to be undertaken for the next 12 months period.

a) Competitiveness – as an area of the present Pact, actually means the abolition of wage indexation, based on a national index of Unit Labour Cost and intending to evaluate the labour costs taking into account quantitative measurements; thus it aims at reducing the labour costs and increasing productivity as well.

The labour costs must be reduced by reforming the degree of centralization of the negotiation process, by reforming the indexation mechanism and reducing the salaries in the public sector; in the same time, the productivity was expected to increase by reforming the industries, as well as improving the infrastructure and education.

b) Employment – is measured by the following two indices:

• Long-term unemployment and youth population
• Labour participation rate

These goals should be achieved by applying the so called “flexicurity” model and by lowering taxes on labour and by facilitating measures for participation of the second-class winners on the labour market.

c) Public finances – represent the nodal goal on which the Pact focuses and aims at increasing the sustainability of pensions, health and social benefits based on the application of appropriate tax rules; hence the limiting of the governments’ opportunities up to affordable and controllable levels, such as the limitation of the early retirement under 55 years of age. Also, incentives to hire older workers are considered, thereby reducing the burden on pension systems.

One of the most severe conditions of the Pact’s rules aimed at enabling Member States that they should commit to translate the fiscal Union rules, as enshrined in the Stability and Growth Pact to be translated into national law.

In applying the balanced budget amendment, each State may choose its own formula for achieving this goal, provided that it would have a high coercive force and a long duration effect. Moreover, the Pact recommends even a constitutional provision or other legal framework which is to include also the public debt theme and the rule of the primary budget balance or a related stipulation concerning the government expenditures.
d) Financial stability - is a very important goal for whose tracking a quantitative indicator is established as referring to "the private debt of banks, households and non-financial firms"; to this effect, each State must develop an appropriate national legislation under the high support of the Board’s President for the European systemic risk. This legislation should solve the problems when the reference targets exceeded.

Fiscal policy coordination aims at implementing a flat tax on income, so as to ensure the necessary coherence between the national systems respecting national tax strategies; it aims also to increase competitiveness of businesses in Europe, to strengthen fiscal coordination through dissemination of best practices and through cooperative efforts to combat fraud and evasion as well; as a the notable fact, one should emphasize the provision that all the direct taxes would be left within the field of the national competence.

Proposals for economic and cooperative measures were adopted by the Council of Europe in March 2011 and, non-euro countries – like Bulgaria, Denmark, Lithuania, Latvia, Poland and Romania, Czech Republic, Hungary, Sweden and the UK - were included in negotiations in addition to the Eurozone members, although they did not participate in the meetings of this body initially.

In November 2011 Euro Plus Monitor published a Report which mentioned the Eurozone countries’ achievements in their efforts to increase the competitiveness of their economies. This Report estimated that Greece, Ireland, Malta and Spain are the most reformist of the 17 states treated. At that time, at the initiative of the co-founders of France and Germany, the agreement was considered an arrangement for the 6 main political changes and a monitoring system meant to ensure the progress. They proposed the following objectives sought to deepen the fiscal harmonization:

- **Abolition of wage indexation** – as a process of adjusting wages to fight inflation, wage indexation erodes the national currency over time and therefore this practice is expected to be abolished so that it would allow to lower real wages, thereby increasing the competitiveness of countries, as it will be less expensive to hire labour; such policies were approached by certain governments, such as Belgium, where a decline in purchasing power was recorded.
- Raising the retirement age is a proposal adopted especially in the countries with "pay as you go" pension systems as in most European countries was found; this measure would have a profound impact on the government revenues, as long as people continue to work and therefore they continue to pay taxes, instead of depending on the public system; however, this is a very controversial measure, as it was seen in France in 2010, in the long series of strikes and movements to protest against the pension system reform.

- **Common basis for business taxation**;
- **Tough ceiling for the indebtedness rate**.

Tax harmonization is an important goal considering its fundamental role in the unification of taxes in Europe. Many states have been withstanding to a common basis establishment, such as Ireland, practicing low. The Commission considers that common rules would be necessary for calculating the tax base, as this would lead to lower the administrative burden and the cost of compliance with the 27 different accounting systems and rules firms’ management.

All the provisions of the Pact have been systematically criticized, as overly harsh and particularly because they contravene many areas which were previously under the national sovereignty. Moreover, it was found that several of its rules are arbitrary and contradictory, thus hindering that real reforms could be approached and implemented.

2.3 - *Six Pack Pact or European Union Law*

*Six Pack Governance Pact* contains a set of legislative measures meant to reform the already traditional *Stability and Growth Pact* and to introduce a new macroeconomic surveillance.

In essence, these measures aim to strengthen the reducing deficits procedures and to maintain the macroeconomic equilibriums, so that penalties for excessive deficit become more severe in this version. For example, when a country against which the excessive deficit procedure was opened and fails in adopting the appropriate measures to eliminate deficits, it will owe a deposit, bearing interest of 0.2% of GDP.

Additionally, other penalties would be imposed, even changing the voting mechanism inclusively. *Six Pack Pact* specifically focuses on the following regulations and guidelines:

- Regulation of the European Parliament and of the Council of Europe to strengthen budgetary surveillance and coordination of economic policies;
- Acceleration in implementing the excessive deficit procedures;
- Strengthening the budgetary surveillance;
Member States' supervision should be more careful, focused and automatic. European Union, the introduction of penalties that should be applied with greater rapidity, and the known name of the Pact for Fiscal European Governance, Compact European Treaty, disputes and talks a document was raised and publicized as the consecrated form for monitoring the fiscal integration, as described in the decision that the European Council adopted on 9 December 2011. Only 25 of the participants signed it, except for the United Kingdom and Czech Republic. These two Member States were arguing, inter alia, that they are able to identify appropriate solutions to any difficulties created by fiscal deficits.

Although Euro area countries have taken suddenly the Pact’s provisions accompanied by severely extensive austerity programs, their populations gave many evidences that they would not accept it without protest.

Romania is part of the non-euro European countries that have accepted and signed the Pact, both because of the contractual obligations deriving from the logic of the accession and because a time has come for the sustainability and the successful efforts in modernizing the country. Moreover, the country needs a strong and reliable anchor sent by an influent and credible power pole as to call up the national energies to modernise the society and to build in force a credible reputation.

The already accepted fact is that the monetary union had to be built upon a fiscal union, as a solid guarantee for its sustainability as collateral. It is true that the lack of fiscal cohesion in Europe is but one of many other shortcomings of this construction, perhaps the most important for ensuring the optimal character of the area.

Currently, Europe is trying to regain its balance after a strong financial turmoil but the election results in several representative countries in the region show that government austerity plans are not pleased by the peoples at all, since in countries such as Ireland, Hungary Latvia and others alike nor the economic parameters or configuration is promising.

2.4 - European fiscal pact - Fiscal Compact

Many negotiations between the main founders of the European Union began in the 3rd quarter of 2011 and then, in the early months of next year, they have continued. At the end of many intense disputes and talks a document was raised and publicized as the consecrated form for The Fiscal Compact European Treaty. Known as the Pact for Fiscal European Governance, it is a proposal for accelerating and monitoring the fiscal integration, as described in the decision that the European Council adopted on 9 December 2011. Only 25 of the participants signed it, except for the United Kingdom and Czech Republic. These two Member States were arguing, inter alia, that they are able to identify appropriate solutions to any difficulties created by fiscal deficits.

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The Pact for Fiscal European Governance aims at strengthening the fiscal discipline in the Union, the introduction of penalties that should be applied with greater rapidity, and the Member States’ supervision should be more careful, focused and automatic.

The name of “Fiscal Compact” [2] is for the provisions of the Title III from the European Fiscal Governance, which addresses a number of issues strictly related to public finances. According to this document, the ceiling of 0.5% of GDP structural deficit is binding. Specifically, the document claims that the Member States’ national budgets should be at least balanced or even excedentary. Member States are also required to include this stipulation as budgetary procedure rule in their national legal systems, preferably at the constitutional level. It means, and, as it is noted in the document, during the first year after the entry into force of this Pact, Member States are obliged to harmonize their constitutional provisions including this time as well.

However, if a country meets the criterion of public debt below 60% of GDP and its public finances show a real sustainability in the medium and long term, the country has the permission to promote a structural deficit of more than 0.5% of GDP, but only up to 1% of GDP. Therefore, the new Treaty seeks to strengthen the criteria, although, since the Maastricht Treaty and in the absence of targeted sanctions, corrections or some strong constraints, these rigorous were violated constantly and even fully enough.
The novelty of this treaty is the automatic correcting mechanism of the fiscal slippages, the disciplining the coordination of the fiscal policy and the mandatory harmonization they are required to. Many considerations, analyzes, debates and approaches aroused the normal interest on it and often expressed some scepticism about the role of this Treaty solutions to the problems which are shaking the euro area currently.

But a vast historical experience shows that monetary unions last only if accompanied by fiscal union. However, in Europe, the monetary union operates simultaneously with 27 fiscal sovereignties, that are very different and claim their autonomy quite noisily.

When asymmetric shocks occur between states - and the history of the recent years provides sufficient and dramatic examples, there is no fiscal transfer, while the labour mobility is extremely low, sometimes being only a goal assumed in the officials’ political speeches.

3. Impact on Romania

Structural budget deficit ratio of 0.5 % to GDP will lead to reducing public debt on medium and long term. According to the calculations in about 20 years, the average nominal growth rate of 5 % to GDP, Romania’s public debt may fall to 20 % to GDP ratio.

However, the question is whether such a reduction of the public debt is desirable. Many opinions expressed in the scientific literature and sustained by the practice show that up to a certain threshold, this leverage can often stimulate a country’s economic growth.

In the recent years, the value of debt has been relatively low, but its accelerated tripling in a very short period of time creates a severe concern. Romania's debt problem has serious connotations amid its limited capacity to access the local financial markets, while the absorption of EU funds is still very weak. The structural deficit is an indicator of the budgetary responsibility.

Frequently, the budget deficit that we use to relate to in the current approach has two components [7]:

A. - Cycliclal component – under the influence of each stage of the economic cycle, such as expansion, recession or stagnation, this is characterizing the capitalist market's dynamics. These cycles are named by token of the economists who have identified and described them as below:

- Short, 3-5 years, called Kitchin cycles (Joseph Kitchin, 1861 - 1932);
- Average, 10-12 years, called Juglar cycles (Clement Juglar, 1819 -1905), or
- Long, 40-50 years, called Kondratieff cycles (Nikolai Kondratieff, 1892 - 1938).

One Kondratieff cycle includes 5 Juglar cycles, which - in turn, includes 3 Kitchin cycles.

B - Structural component – it captures stable elements of public revenues and expenditures, i.e. of those debts that can not be contracted through short-term impact decisions. Limitation of the structural deficit equals the responsibility of not taking the assumption that permanent budgetary expenditures would be covered with permanent budgetary revenues.

For example, during 2007-2008 there were wages and pensions successively increasing and their payments were covered by incidental income, such as those resulted from privatizations, the structural deficit increased as well and directly impacts the following year. Instead, the decisions regarding the shrinkage or the freezing of the expenditures through systemic reforms lead to a significant long-term decrease of the structural deficit.

During the period of the overheating economy, amid rapidly rising demand which was supported either by very lax banks' lending policies and increased appetite for consumption on credit, additional but temporary incomes were obtained for the public budget. Thus, during 2006 - 2009, the structural deficit considerably soared after its relative stagnation around - 2 %- to-GDP ratio as recorded during 1998 - 2005.

In the last 17 years, the negative record of the structural deficit of - 9.1 %, to GDP ratio was achieved in 2009. It was a symbol of the irresponsible debt assumed within the election race and it had an increased log-term impact on the budget. All the debts that were hoarded in the previous good years impetuously rolled right in the first year of the severe economic recession and the decisions for tough reforms also delayed in 2009 because of the election, so that the structural deficit remained at very high levels.

According to the European Commission, since 2010, the adjustment and balancing public finances efforts are reflected in reversing this trend and adopting significant reduction in the effective budget deficit, of - 4.9 % to GDP ratio, while the structural deficit reached - 3.7 % in 2011.
Limiting the structural deficit - 0.5% to GDP ratio and accompanied by appropriate transitional clauses in the new economic European governance Pact ought to ensure long-term fiscal stability and responsible spending of public money, regardless of the ups and downs of the economic cycles.

Conclusion

The European Pact for Fiscal Governance is the latest form of the EU Member States’ intentions to achieve the harmonization of fiscal policies – in general, and of budget policy construction – in particular.

The document contains a number of advantages that will be hardly visualized in the medium and long term, while the disadvantages are visible and noticeable immediately, in the short term especially.

The fundamental problem of the macroeconomic policy makers is to choose the most appropriate fiscal and budgetary policy guidelines, to stimulate growth and combat fiscal indiscipline.

According to the public finance theory, some basic principles in the budget construction are discussed, including the principles of annual budget construction and the budget balance. Long time considered as the golden rule of any budget projections, which meant the correct approximation up to the equivalence between the expenditures and the revenues, the budgetary balance is built on optimal correlations of fiscal policy, which are based on certain rates and determined values for the tax burden, public expenditures and public budget balance.

Amid continuing growth of the public spending, but also as a consequence of the differences between countries regarding the tax burden and tax policy, budgetary deficits worsened with time. Thus, the issue of financing the gap between public revenues and expenses appeared and aggravated, but the concrete methods meant to solve this problem belong with the concept of fiscal sovereignty and it concentrates the optimality of the fiscal policy requirements.

States were always able to choose between the currency emission and the government borrowing program, or the public credit policy. If the issue of the currency emission is not allowed according to specific rules, and penalties for infringements are provided for severe special regulations, about the public credit policy the only frequently addressed issue is related to the state lent credibility and solvency. Against sovereign debt problem which perturb the public finances of the present world, approaching the state loans requires a reconsideration of all the defining premises beyond the immediate apparently attractiveness for both the rulers and the ruled.

Whatever the solution, it expresses the increasing interventionism of the State as the public authority, which is often forced to engage in calming down the current turmoil on sovereign debt markets.

Welfare state phenomenon of crony capitalism – as a local title said long time ago is an inefficient bureaucracy, as translated in reality. These are just the symptoms of a general framework
whose features derived from a much older and chronic cause and kept the same very specific feature in almost all the national economies during the post-war period. It is a flawed deficit policy, systematically maintained by the same explanations constantly circulated, regardless of location or political colour.

The needed budgetary flexibility is the first explanation, only partially true a motivation, since one cannot build this upon a sound governments’ savings ground, otherwise this flexibility increases the indebtedness, and may endanger the entire situation of the state consequently. Alternation between anti-cyclical and pro-cyclical policy remains the only feasible solution to avoid difficulties in financing deficits.

According to another argument, the deficit would be necessary for the economic development, but this theory is partially correct, especially for the case of an emerging economy, which relies on foreigners' resources and savings.

But the state, as public authority, should not be the borrower, as this would distort the entire credit market with adverse effects especially for the private sector. Moreover, the State is by far the most inefficient manager for the financial resources and this fact is even more dramatically visible in the case of the public borrowed resources. They increase the budget deficit, not only perpetuate it, and finally, they increase the indebtedness of the country.

The destination of the 40 billion Euros could be a very interesting subject of analysis, since Romania contracted them in the recent three years and a half and whose interest and principal will push strongly, while the country continues to require funding for wages and pensions, even if two years ago tough measures and austerity policy affected all the wages in the public sector and all the pensions as well.

Finally, according to completely unjust reasons, the deficit is necessary to cover all the necessary expenditures, but on the macroeconomic level, sound and appropriate policies are to be applied, so that consistency between the public revenues and expenditures should be established. When the deficit will tend to finance the public expenditures, the country’s indebtedness grows and thus may reach the so-called sovereign bankruptcy.

The sovereign debt crisis, which characterizes most of the global economy, is rooted in the promotion of the three reasons mentioned above and substantiates many cases of violating the principles enshrined in the classic theory of public finance.

The provisions stipulated in the latest formula of the European fiscal consensus and which most of the Member States’ representatives consider them too harsh, are but a proposition to thorough reconsideration of these very classic principles, as to reconceptualise them at the level of the European community.

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