# FISCAL RULES AND FISCAL RESPONSIBILITY CONVERGENCE

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**Abstract:**

In the last decades, against the background experience of countries which have known consecutive periods of fiscal instability, place all more often the problem of consolidating public finances and establish a sustainable and stable fiscal policies that respect fiscal responsibility criteria. Government decisions have a role well determined in critical periods of the economy and their approach with the purpose of putting in practice, dictate the future of entire generations. A way to counteract negative effects of the crisis and of the various factors that affecting the economy, is undoubtedly the increase of domestic supply. But in business reform process, it is also necessary to take into account a good instrumentation of fiscal budgetary policy, imposing the need to provide particular attention to the mechanisms of public finances and the specific instruments (expenditure, budget, revenue, public debt).

The aim of this paper is to show the degree of compliance with the principles of fiscal responsibility, emphasizing which is the degree of convergence on fiscal responsibility. The methodology used is qualitative, which concerns the analysis on the contents of a series key documents: Statute of fiscal rules in the EU member states 28, the origin of fiscal rules and corroboration with specific elements of the public administration system, all this documents, enabling to build a index which validates the hypothesis of this research.

**Key words**: fiscal responsibility, fiscal rules, public administration

**JEL classification:** G28, E62, H72

## 1. INTRODUCTION

In contemporaneity, the state is an important player in both the political, social and economic life. Under the aspect of the sustainability of the action taken, it is conditioned for the procurement of resources, using one of the levers, among which we find the fiscal system. In light of its status as a provider of public goods and thus the public service provider, the state enjoys legitimacy in order to obtain financing from the beneficiaries concerned. This legitimacy is exercised by government revenue policy, but always there is a need for interdependence between resource requirements and implications of state government in providing public goods and services. Even if the fiscality is a concept deeply annoyed on the grounds of exaggerations in some cases, however, we admit the importance in strengthening social equity, supporting disadvantaged social categories and implicitly, in supporting economic development. In fact, from a historically point o view, tax systems have evolved in terms of delimitation of oportun situation, with the aim of the collection of taxes and fees in a manner as simplified with the effect of a tolerance as the positive tax payers and with a functionality in the basis of principles well defined. Sure that in the optimum management of public finances and the mechanisms concerned, we find emphasized the usefulness of the consolidation of fiscal and budgetary discipline, with the purpose to enhancing the transparency in the management of financial resources, thus laying the foundations for what means the fiscal and budgetary responsibility.

In fact, the responsibility, implies not only a transparency of the use of public finance mechanisms but also a more efficient by a legal framework well determined. On the other hand, this need of responsibility, makes its presence felt as a result of the economic crisis, which has made that the aspects who were previously inserted in the legislation of the ordinary meeting, to migrate in the constitutional space and as a result of the implications of the bodies from international level, the European Union, bringing like recommendation Member States a series of measures regarding the fiscal responsibility.

## 2. LITERATURE REVIEW

In the itinerary of the Governments to achieving the objectives of economic and social activity, shall emphasize the use of regulations and the configuration of the institutions in the direction of an application as well as more efficient use of the fiscal instruments (Dumitru Sorescu, Jean-Marie, 2008). Discussions about the taxation and by default, about the level of taxation, are traveling around the principles which involve morality, with the incidence of issues such as social justice, the size of the duties, division of duties, equality of sacrifice or transparent taxation. In this way, recognizing *the scope of fiscal responsibility laws,* (Manmohan S. Kumar, Teresa T., (2007), relate that FRLs aim to improve fiscal discipline by requiring governments to declare and commit to a monitorable fiscal policy objective and strategy. Often, a driving force behind FRLs is the wish to make fiscal policies more predictable and credible, by establishing rules and procedures the government must follow in the design and implementation of fiscal policy, and by setting up transparent mechanisms by wich others can judge if the government is complying with established goals and priorities.

Murray Rothbard (1981) come with an argument according to which, "economists can not take any principle of fair taxation because taxation by its nature is unjust". Moreover, social justice, reason under which taxation is often justified, tends to approach a concept that is interdependent with an opinion of a researcher in the field, "human behavior can only be called just or unjust" (Hayek 2015). Through this statement of the boundary of morality in decisions concerning taxation and implicitly, the level of taxation, we can judge that it is impossible for us to imagine that we can conceive a system of taxation which would correspond to the attribute of "justice" (Saline , 2015).

Taxation, a phenomenon that in the minds of JB Say is reported like " action to take a part of the property to fulfill the public purpose" can be regarded as a form of violation of property rights. In contrary to this last opinion, Frederic Bastiat, does not consider that taxation would affect property rights, as long as the use of these revenues is done in order to subsidize unprofitable activities and ensuring social equity. Adam Smith (1776), considers that the amount of taxes owed by taxpayers, must "be certain, not arbitrary" and this certainty of taxation, should not leave plece for interpretation, but to emphasize to taxpayer very clearly  the entire itinerary process. In light of the reference to the fiscal responsibility with a clear demarcation between fiscal policy, regarded as all decisions on taxation area, that the state adopt to ensure financial resources necessary financing activities (Musgrave, 1984; Pedregal and Perez, 2009) and budgetary policy, whose main instrument budget and its components (Annicchiarico, 2012), we emphasize that based on the quality of member state of the European Union, Romania, was faced with the responsibility of strengthening fiscal responsibility by creating a well defined legal framework.

Why should a country to adopt a fiscal responsibility law?  Because the efficient management of public finance and implicitly strengthening a set of rules under which the Government to ensure a correct management of fiscal and budgetary policy, can not be a success without the existence of a solid legal framework. The international level researchers (Corbacho and Schwartz, 2007), argue against this, reporting that a law who outlining fiscal responsibility, can not buy credibility of citizens in efficiency of  public administration. In this context, researchers from the Department for International Development (DFID, Carlos Santiso, 2005) highlights the importance of an administration in which is necessary to preserve fiscal and budgetary discipline, telling that "political institutions and institutional arrangements have a decisive influence on economic performance and fiscal responsibility, only an administration that has fiscal responsibility as the basis of a public finance transparency, strengthens confidence of taxpayers in public management".

We realise that it is well known that political institutions affect the budget processes and fiscal outcomes (Alesina and Perotti 1996 and 1995; Acosta and Coppedge 2001). Research by Ernesto Stein et al (1998) and Alberto Alesina et al (1999), have significantly increased our understanding regarding the influence of budgetary institutions on fiscal discipline. So through the approach of fiscal responsibility by an international organization that has direct implications on the

promotion of a global health economics (IMF) we find that in order to achieve the goal of fiscal responsibility, it is necessary to insert a set of relevant rules, necessary to outlining this concept.

## 3. DATA AND METODOLOGY

It is evident from the literature review section that the subject addressed in this research, is innovative, and we want to incorporate the results of the qualitative analysis in an efficient way, with the purpose of providing an answer to the main question of this study: Fiscal responsibility is a primary goal of the contemporary world, which is the degree of convergence to fiscal responsibility in EU countries?

Research Hypothesis: The type, number and fiscal rules origin, enhance the image of an administration that tends to respect the principles of fiscal and budgetary responsibility. According with those mentioned, qualitative methodology will be sequential, involving a series of steps depending on the specific subject tackled, who will provide viability of our study, coherence and consistency.

1) Stage I: a content analysis of relevant documents from the framework of public finance in general and fiscal budgetary responsibility in particular, in order to identify what is needed in the second and the third stage of the study.

2) Stage II: incorporation of data obtained in the first stage, the process of encoding the types of fiscal rules and their origin.

3) Stage III: The determinations of convergence score to Fiscal Responsibility Laws:
   - over 1.2-CONVERGENCE TO FR
   - less than 1.2-DO NOT

As we are interested in the phase difference between the components of the stages, we note that the steps of study follows a logical sequence, because of the interdependence between them, aiming in fact, obtain reliable results and truthful, to be able to certify the results obtained in this qualitative approach. Through the deductive approach, we validate certainty the default choice of group of countries in terms of budget rules and legal system origin. The limited resources available, degree of difficulty and especially, the large volume of documents that need to be analyzed requires primarily a exploratory study with the objective to make a innovative research. Therefore, in the second stage of the study we made reference to the specific environment of the European Union countries, but in the third stage, with the purpose to offering a clearer situation, encroaching EU 28 countries.

*The technique used in this paper* is represented by the study of the documents, which are mainly two categories: the reports on public finances and fiscal sustainability. In base of methodology raised in the previous paragraphs, the choice of *conceptual content analysis* has become the only one able to confer the degree of objectivity necessary in the analysis, capable to highlighting the issues that are significant for the situation analyzed.

Thus, the analysis was carried out in four distinct phases each having a precise set of criteria and intermediate objectives. The four phases of analysis to be used are shown in Figure no. 1.
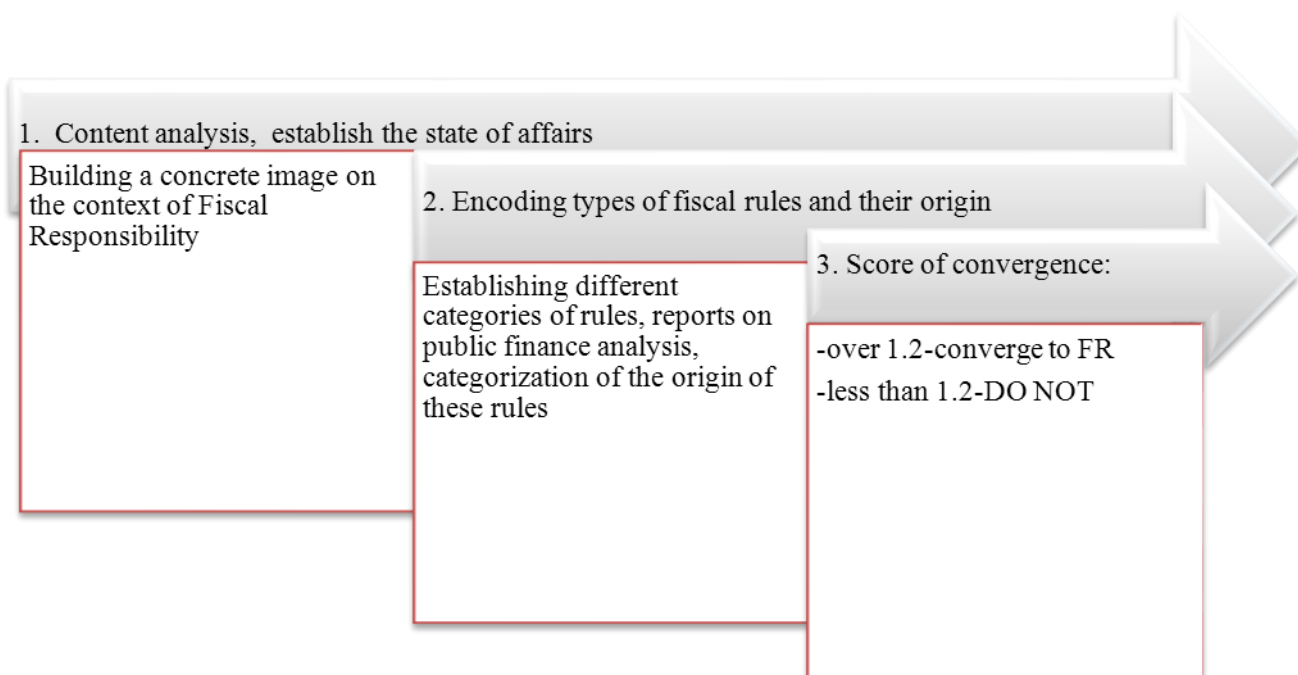
1. Content analysis, establish the state of affairs

Building a concrete image on the context of Fiscal Responsibility

2. Encoding types of fiscal rules and their origin

Establishing different categories of rules, reports on public finance analysis, categorization of the origin of these rules

3. Score of convergence:

-over 1.2-converge to FR
-less than 1.2-DO NOT

**Figure no. 1. Main stages of study**
Source: Own processing

In addition to content analysis of relevant documents from the public finances area in general and fiscal budgetary responsibility in particular, in order to identify the necessary aspects for the second and third stage of the study, we note that there was made a direct corellation with the reference and methodology outlined in the first part of the study. Thus, we conclude that fiscal policies and sustainable development policy, have appeared as major issues in media, politics and public administration discussions among researchers in the field, beeing already an objective whose involve work and the use of a multitude of variables, still missing unanimous opinion in this sense.

By analyzing financial an fiscal reports from the internationally and nationally level, referring to Romania's case, we find that fiscal-budgetary responsibility law no.69/2010, contains a rule stipulated in article 6, letter d), which stipulate that "for each of the three years covered by the fiscal bugetary strategy, the annual growth rate of total general government expenditure will be kept under annual growth rate of nominal GDP forecast to budget year.

According to the OECD, a fiscal responsibility law, contain a set of rules, procedures and principles that includes elements such as accountability, transparency and stability. In other words, a law (or a part of a law) which aims to improve fiscal discipline by requiring governments to declare and engage in a correct fiscal policy strategy.
Pointing the international context, we detail that fiscal responsibility is delimited by four main characteristics (Pollitt, C. and G. Bouckaert, 2000):
- Specifying the medium-term path of fiscal year,
- Describe the medium and long term strategy of the annual budget and ways of meeting the targets,
- regular publication of reports (at least twice a year), in accordance with fiscal objectives and targets,
-  Auditing annual financial statements, to ensure the integrity of fiscal information
- Establish clear fiscal rules, transparent, consistent with economic reality

## Table no. 1. Type of fiscal rules in place and type of economy

| Country -2014 | Type of fiscal rules | | | | Type of economy | | | |
|---|---|---|---|---|---|---|---|---|
| | ER: Expenditure rule | RR: Revenue rule | BBR: Budget balance rule | DR: Debt rule | Advanced | Emerging | Federal | Member of currency union |
| AT | NO | NO | YES | YES | YES | NO | YES | YES |
| BE | - | - | YES | YES | YES | NO | YES | YES |
| BG | YES | - | YES | YES | NO | YES | NO | NO |
| CZ | YES | - | YES | YES | NO | YES | NO | NO |
| CY | - | - | YES | YES | YES | NO | NO | YES |
| HR | - | - | YES | YES | YES | NO | NO | NO |
| DK | YES | - | YES | YES | YES | NO | NO | NO |
| EE | - | - | YES | YES | YES | NO | NO | YES |
| FI | YES | - | YES | YES | YES | NO | NO | YES |
| FR | YES | YES | YES | YES | YES | NO | NO | YES |
| DE | YES | - | YES | YES | YES | NO | YES | YES |
| EL | YES | - | YES | YES | YES | NO | NO | YES |
| IE | - | - | YES | YES | NO | YES | NO | NO |
| IT | - | - | YES | YES | YES | NO | NO | YES |
| LV | - | - | YES | YES | YES | NO | NO | YES |
| LT | - | - | YES | YES | NO | YES | NO | NO |
| LU | YES | YES | YES | YES | NO | YES | NO | NO |
| MT | YES | - | YES | YES | YES | NO | NO | YES |
| PL | - | - | YES | YES | NO | YES | NO | YES |
| PT | YES | YES | YES | YES | YES | NO | NO | YES |
| UK | YES | - | YES | YES | NO | YES | NO | NO |
| RO | - | - | YES | YES | YES | NO | NO | YES |
| SK | YES | - | YES | YES | NO | YES | NO | NO |
| SI | - | - | YES | YES | YES | NO | NO | YES |
| ES | - | - | YES | YES | YES | NO | NO | YES |
| SE | YES | - | YES | YES | YES | NO | NO | YES |
| NL | YES | - | YES | YES | YES | NO | NO | NO |
| HU | - | - | YES | YES | YES | NO | NO | NO |

Source: own processing based on data provided by http://ec.europa.eu/economy

## Tabel no. 2. Legal basis

| Țara-2014 | Legal basis | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | ER | RR | BBR | DR | ER | RR | BBR | DR |
| | National rules | | | | Supranational rules | | | |
| AT | - | - | 3 | - | - | - | 4 | 4 |
| BE | - | - | - | - | - | - | 4 | 4 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| BG | 3 | - | 3 | 3 | - | - | 4 | 4 |
| CZ | - | - | - | - | - | - | 4 | 4 |
| CY | - | - | - | - | - | - | 4 | 4 |
| HR | 3 | - | 3 | 3 | - | - | 4 | 4 |
| DK | 5 | - | 5 | - | - | - | 4 | 4 |
| EE | - | - | 2 | - | - | - | 4 | 4 |
| FI | 2 | - | 2 | 2 | - | - | 4 | 4 |
| FR | 3 | 5 | 3 | - | - | - | 4 | 4 |
| DE | 1 | - | 5 | - | - | - | 4 | 4 |
| EL | - | - | 3 | - | - | - | 4 | 4 |
| IE | - | - | - | - | - | - | 4 | 4 |
| IT | - | - | 5 | - | - | - | 4 | 4 |
| LV | - | - | 5 | - | - | - | 4 | 4 |
| LT | 3 | 3 | - | 3 | - | - | 4 | 4 |
| LU | 2 | - | - | 2 | - | - | 4 | 4 |
| MT | - | - | 5 | - | - | - | 4 | 4 |
| PL | 3 | - | - | 5 | - | - | 4 | 4 |
| PT | - | - | - | - | - | - | 4 | 4 |
| UK | - | - | 3 | 3 | - | - | 4 | 4 |
| RO | - | - | 3 | 3 | - | - | 4 | 4 |
| SK | - | - | 3 | 5 | - | - | 4 | 4 |
| SI | - | - | - | - | - | - | 4 | 4 |
| ES | 3 | - | 3 | - | - | - | 4 | 4 |
| SE | 3 | - | 3 | - | - | - | 4 | 4 |
| NL | 2 | 2 | 3 | - | - | - | 4 | 4 |
| HU | - | - | - | - | - | - | 4 | 4 |

Source: own processing based on data provided by http://ec.europa.eu/economy http://ec.europa.eu/economy
*5: Constitutional; 4: International Treaty, 3: Common law; 2: Coalition agreement; 1: Political commitment.

## 4. RESULTS AND DEISCUSSIONS

Based on the above analyse, we can say that general topics of the analysis, require a different treatment of the results obtained and we find that tax rules are effective in reducing structural primary deficits at all levels of government efficiency. Basically, its clear that high levels of debt, provoked by a situation of economic and financial crisis, constitute a major threat to the financial sustainability of governments in many other parts of the world. This delicate state of public finances also affects local governments and has led researchers to study the variables that influence the volume of bank debt. However, few have specifically analysed the causes of local **government** default, although it has provoked spending cutbacks and tax increases in many countries. According to data from Table. 2.4 can be seen that in terms of the nature of the legal system in eight states legal basis for fiscal rules have their origin in International Treaty and Common Law, eight of them, in International Treaties, common Law and the Constitution, four of them in International Treaties and the Constitution, other three in common law, the Constitution, International treaties, and finally, two of the 28 member EU have the origin of budget rules in originating Political Commitment and the Coalition Agreement, respectively, Germany and the Netherlands.

Based on the frequency table (**Table 3. Frequencies for type of fiscal rules**), we can say that in 28.57% of the EU states, the legal basis for fiscal rules is rooted in Common Law and International Treaties, 28.57% in International Treaties, Common law and the Constitution, 14.29% of them in International Treaties and the Constitution, 10.71% Common Law, Constitution and International Treaty, 3.57% Political commitment, Constitution and the Treaty and the other 3.5%, have the Coalition Agreement, Common Law and International Treaties.

### Table no. 3. Frequencies for type of fiscal rules

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| **Type of fiscal rules** | | | | | |
| Valid | BBR AND DR | 13 | 38.2 | 46.4 | 46.4 |
| | ER, BBR AND DR | 12 | 35.3 | 42.9 | 89.3 |
| | ER, RR, BRR,DR | 3 | 8.8 | 10.7 | 100.0 |
| | Total | 28 | 82.4 | 100.0 | |
| Missing | System | 6 | 17.6 | | |
| Total | | 34 | 100.0 | | |

Source: Author calculations in SPSS

According to data from Table. 3 we can see that of the 28 EU member states, 13 (46.43%) have tax budget balance rules (BBR) and rules on public debt (DB), 12 (42,86% ) states have rules tax on expenditure (ER), budget balance (BBR) and debt (DR) and 3 (10.71%) countries have rules on expenditure (ER), revenue (RR) budget balance (BBR) and public debt (DR).

### Table no. 4. The frequencies for type of economy

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| **Type of economy** | | | | | |
| Valid | Advanced, Federal, Member of currency union | 3 | 8.8 | 10.7 | 10.7 |
| | Emerging | 7 | 20.6 | 25.0 | 35.7 |
| | Advanced, Member of currency union | 13 | 38.2 | 46.4 | 82.1 |
| | Avanced | 4 | 11.8 | 14.3 | 96.4 |
| | Emerging, Member of currency union | 1 | 2.9 | 3.6 | 100.0 |
| | Total | 28 | 82.4 | 100.0 | |
| Missing | System | 6 | 17.6 | | |
| Total | | 34 | 100.0 | | |

Source: Author calculations in SPSS

Based on Table 4. it notes that 13 of the 28 EU Member States, have an advanced economy and there are members of the currency union, 7 have an emerging economy, three of them have an advanced economy, there are federal and members of the Monetary Union, while a State has an advanced economy and is a member of thecurrency union, thus:

- 46.43% of the 28 EU Member States, have an advanced and there are members of the currency union,
- 25% have an emerging economy,

- 10.71% of them have an advanced economy, there are federal and part of Monetary Union Member States,
- 3.57% of states have an advanced economy and there are part of currency union .

**Table no. 5. Results of topics-The convergence to fiscal and budgetary responsibility**

| | The convergence score to fiscal and budgetary responsibility | | | |
|---|---|---|---|---|
| Ţara | Nr. Regulilor fiscale 0.25-1 p[1] | Importanta regulilor fiscale 0.1-0.5 p[2] | Total | Scor de convergenţă (peste 1.2-converge la RFB) |
| Austria | 0.5 | 0.7 | 1.2 | YES |
| Belgium | 0.5 | 0.7 | 1.2 | YES |
| Bulgaria | 0.75 | 0.4 | 1.15 | NO |
| Czech Republic | 0.75 | 0.4 | 1.15 | NO |
| Cyprus | 0.5 | 0.4 | 0.9 | NO |
| Croaţia | 0.5 | 0.7 | 1.2 | YES |
| Denmark | 0.75 | 1.4 | 2.15 | YES |
| Estonia | 0.5 | 0.6 | 1.1 | NO |
| Finland | 0.75 | 0.6 | 1.35 | YES |
| France | 0.75 | 1.2 | 1.95 | YES |
| Germany | 0.75 | 1 | 1.75 | YES |
| Greece | 0.75 | 0.7 | 1.45 | YES |
| Ireland | 0.5 | 0.4 | 0.9 | NO |
| Italy | 0.5 | 0.9 | 1.4 | YES |
| Latvia | 0.5 | 0.9 | 1.4 | YES |
| Lithuania | 0.5 | 0.7 | 1.2 | YES |
| Luxembourg | 1 | 0.6 | 1.6 | YES |
| Malta | 0.75 | 0.9 | 1.65 | YES |
| Polond | 0.5 | 1.2 | 1.7 | YES |
| Portugal | 1 | 0.4 | 1.4 | YES |
| United Kingdom | 0.75 | 0.7 | 1.45 | YES |
| România | 0.5 | 0.7 | 1.2 | YES |
| Slovak | 0.75 | 1.2 | 1.95 | YES |
| Slovenia | 0.5 | 0.4 | 0.9 | NO |
| Spain | 0.5 | 0.7 | 1.2 | YES |
| Sweden | 0.75 | 0.7 | 1.45 | YES |
| Netherlands | 0.75 | 0.9 | 1.65 | YES |
| Hungary | 0.5 | 0.4 | 0.9 | NO |

Source: Own calculations

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[1] Depending on the type and number of fiscal rules according worksheet 1, it has been established a score of 0.25 for each rule, the amount presented is their sum.

[2] In terms of importance, with reference to the origin of fiscal rules-5: Constitutional; 4: International Treaty, 3: Common Law; 2: Coalition Agreement 1: political commitment, it has been established a score equal to their sum

Table no. 6 show the importance of this study and presents the results of convergence on fiscal budgetary responsibility, being clearly indicates specificity of 28 EU countries in terms of accession or not to the fiscal responsibility and sustainable public finances. It is noted simplistic that the results of our research are find in explanations of economic, noticing that the end results, invokes we could say, aspects of economic long-term management, care for future generations and countries capacity by managing fiscal reforms and not only.

## 5. CONCLUSIONS

Basically, the items of this analysis and correlation of different situations on the context of the study,  show that the economic future of nations and fiscal responsibility are directly corelated. Content analysis showed that there is a link between budget deficits and benefits of tomorrow's society, because the quality of management challenges short- and long-term, will help in putting the nation on a path to sustainable prosperity and living standards rising. Thus, the research concerned, wished by way of interdependence of actions undertaken and the mix of qualitative methods to strengthen an overview in wath regards the opening of the European Union member countries in adopting these fiscal rules and building a effective fiscal and budgetary system.

Concerns for greater transparency and accountability must nevertheless reinforce efforts at promoting budget responsibility and anchoring fiscal discipline. Parliaments do possess a wide range of budgetary powers, but often fail to exercise them effectively or responsibly. In most emerging economies, they tend to lack both the technical capacities and the political incentives to assume a responsible role in public finances. The study results lead to the conclusion that fiscal responsibility represents the ideal of contemporary world, the way to strengthen the financial system, to make it more solid, more efficient, more transparent and to meet the needs of current generations without compromising those of future generations. Thus, building legislative fiscal capacity is not only about restraining government, lengthening budget execution or sanctioning financial management. It is also about improving financial management, stimulating efficiency reforms, and promoting fiscal discipline.

In line with this, we admit that the study results find their basis in economic explanations, appreciating that they invoke aspects of long-term economic management, caring for future generations and countries capacity in managing fiscal reforms. We find a preference of inadequacy of the legal fiscal mostly on profile of less developed countries with problems in terms of capacity to effectively manage public finance system, talking concerned  by Cyprus, Czech Republic, Bulgaria, Slovenia, Hungary, which have scores below 1.2., and at the opposite pole, we discuss about the scope of economic powerhouses, which, according to empirical studies, annual reports and practices in the field, enjoys economic growth and a different status, respectively Danemmark, Netherland, France, Luxembourg and Germany, which according to our analysis recorded scores above 1.65, reaching a maximum of  2.15.

We consider that the study can be extended in the future, by inclusion of the score of convergenc to fiscal responsibility, in an econometric study, to test the implications of this convergence on economic growth, GDP growth rate being the dependent variable.

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