IMPLICATIONS OF FISCAL CONSOLIDATION IN EU ON THE BACKGROUND OF PROMOTING SUSTAINABLE ECONOMIC GROWTH

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Abstract:
The process of fiscal consolidation, initiated at EU level, since the last decade are a necessity now, the situation is significantly deteriorating for most of the Member States, as a result there is the occurrence and manifestation of economic and financial crisis. Recovery and promote growth, the goal outlined in the new European strategy, is including among the influences or is affected by its implementation, as we show in our analysis. The implications of fiscal consolidation process related to a number of costs and limited, on the one hand, due to the current crisis, and on the other hand, the need rallying Member States wishes strategy pursued by the "Europe 2020". Against this background, our paper aims to highlight possible solutions to the remaining public authorities in implementation of fiscal consolidation. Also, a study compared the economic situation, the level and trend of budget deficit and public debt, in Member States of the European Union in 2007-2010, allowed us to identify and group the Member States according to the constraints on they are subject in the recovering of the situation of public finances.

Keywords: fiscal consolidation, public debt, fiscal deficit, taxes, economic crisis, economic growth

JEL Classification: H 62, H 63, H 30

INTRODUCTION

The problem of fiscal consolidation in the European Union in 1993 aiming to put the budget deficits triggered thereby halting the decades prior. However, at Community level beginning in 2000, promoting a sustainable economic growth was brought to the fore, with emphasis on the need to improve the level of education and training (qualification), adopting a new attitude towards professional development for the purposes of lifelong learning lifetime security reform and social inclusion.

The period in which the economic and financial crisis was triggered coincided with the period in which the European Union has outlined a new strategy on medium and long term which is considered to be the continuation of the Lisbon's strategy. The new strategy, named „Europe 2020" prioritizes the bold economic and social objectives. Moreover, EU aims to develop a sustainable economic growth (on the one hand, with implications for the environmental protection and, on the other hand, by giving support to the SMEs) and this economic growth is sustained by the investments in the human capital area, in various shapes (stimulating the research, innovation and development activities). The effects are going to be seen by all the stakeholders (the growth of the employment share and the poverty reduction being the leading priorities). In a synthetisized utterance the EU's objectives stated in the strategy of „Europe 2020" emerge in promoting the economic „smart, sustainable and comprehensive" growth.

The issue drawn by the new strategy, and some goals containing new and outlined background of worsening public finances, making of this the greatest problem which needs to be addressed and corrected, as it affects the economic growth, is represented by the public finances. By reducing the budget deficit and the government debt is urgent and necessary as it is shown in the reports from 2009 and 2010 of the European Commission, regarding the monitorization of the EU economic growth, in order to break the vicious circle which was caused by the existence of a huge public debt and it affects the financial market (involving a high level of interest) and thereby it reduces the economic growth (European Commission, 2010; European Commission, 2011).

The economic crisis has left a great impact on the economic situation on most of the Member States of the European Union, growing worse the economic key indicators and the

financial levels. In the year of 2009, all the Member States excepting Poland, registered a decrease of the domestic product, and, in some of the cases, even its collapse. As a response to the manifestation of these negative effects in the real economy, most of the states responded with economic measures in order to combat unemployment and economic recession triggered by it.

Most of the developed countries took measures of discretionary fiscal policy in an attempt to sanitize the economic crisis. Due to the nature of this particular crisis, the range of solutions has become very narrow. So, on the money line, the usage of a benchmark interest rate is limited; it can no longer help in the recovery of the economy, especially because it was at a very low level when the crisis started, phenomenon known as the liquidity trap.

On the background of these findings, *we propose in our work*, through an analysis as it is normative and empirical basis of one type to emphasize *on the one hand*, the implications of their actions taken by most states following the event economic crisis, as well as the final objective of combating the negative effects arise from this, as well as on public finances and *on the other hand*, under what conditions, the objectives of the strategy "Europe 2020" can be achieved in the context of shaping, as crucial necessary, fiscal consolidation process.

FISCAL CONSOLIDATION - NORMATIVE FRAMEWORK

According to the literature in this domain, an episode of fiscal consolidation occurs when the balance of the cyclically adjusted budget, after a budgetary year, improves with at least 1% of the potential groass domestic product or with at least 0.5% in two consecutive years. There are two possible solutions which can lead to reducing the budget deficit, and these are: reducing the public spending and increasing the revenues, especially the fiscal ones.

At EU level, the necessity of fiscal consolidation occurs in the background confluence of the factors that have worsened, directly or indirectly public finances: the Maastricht Treaty relaxation conditions, the extent of economic collapse following the crisis, which required fiscal-budgetary measures for its mitigation, plus the negative effects of promoting pro-cyclical policies in most Member States, in the years preceding the current crisis.

First, the change of the Stability and Growth Pact, in 2005, had some direct implications on the level of the budget's deficit and on the government debt, allowing the states from the eurozone to exceed the threshold of 3% of the GDP concerning the annual budget deficit. That's why the situations which explain the existence of the deficit already accepted (natural disasters, war, economic cycle) were added along with the situation of economic downturn which led to an increase in the public debt which was driven by the deficit financing. The changing of the European Union Treaty was seen as a complete relaxation of the fiscal rules and the convergence criteria risked to be seen as a minimum and not as a maximum.

Secondly, promoting the economic growth trough acceptance of public deficit (like a anti-cyclic mesure) has led to some negative phenomenom in real economy: some studies made by OECD and IMF show that EU fiscal policies, in the recent decades, were expansionary during the periods of economic growth and restrictive in the downturns. This whole situation led to undermining the effects of the incorporating stabilizers, and more, to abrupt developments of the GDP level. Thereby, the studies show us that in the 1960-2006 period, the fiscal policies were clearly pro-cyclical in the developing states and in the industrialized countries there were some elements of pro-cyclical (Talvi & Vegh, 2005; Kaminski et al., 2008). More than this, the final public consumption in the developing states emphasizes the economic cycle. However, at the level of G7 states, the fiscal policies were either acyclic or anti-cyclical (Tavi & Vegh, 2005). One of the possible explanations for this phenomenon is given, on the one hand, by the imperfections of the domestic credit market (unwise loans), and on the other hand, by the corruption and rent-seeking behaviour which is emphasized in the periods of economic growth.

Another cause of pro-cyclicality is determinate by some fiscal-budgetary measures are given by certain practical difficulties in implementation, such as the timing of intervention, especially the nature of the economic downturn (due to the economic cycle or is it just a change of trend).

In addition, political factor causes an asymmetry when it comes to taking anti-cyclical decisions, because an expansionary policy is more popular than a restrictive one and it does not involve political costs. The existence of the political cost and, even more, of electoral cycles, determine the retention of the expansionary measures when they should be replaced with restrictive ones instead.

Thirdly, fiscal and budgetary measures taken by most Member States, this occurrence is the manifestation of the crisis, that have raised the budget deficit, involves a number of shortcomings in the economy, their effects entirely missing the assumed objective.

In this conditions, the positive effects of discretionary policy can be neutralized to a large extent by the reaction of the people to the budget deficit resulted, which will proceed with the anticipated increase in tax savings in the future and is known as the Ricardo-Barro effect. The validity of this teory is still disputed by Pareto, who claims that populations does not have the ability to predict a future increase in taxes. The studies made by OECD have shown that, partially, the Baro effect manifests and it compensates approximately 50% of the short-term effects of the fiscal policy and about 70% of its long-term effects (Tanzi, 2004, p. 143). The Baro effect can be interpreted as the tendency people have to make savings in times of economic decline, based on general safety reasons, reducing their consumption. Therefore, the tax cut has a delayed effect, the additional disposable income is largely saved, and, in addition, it can be spent in a period when the growth of the consumption may further exacerbate the economic cycle. More, the introduction of the tax incentives under a precarious situation (already existing in some member states, at the start of crisis) of public finances and with a high public debt represents a bad measure with the potential negative impact on investors. They will anticipate that, given the existence of a high public debt, the government will have to change its fiscal policy in the near future, from an expansionary one to a restrictive one.

Moreover, the experience of the countries that recovered in a short period of time after the application of the restrictive fiscal policies, not because of the application of a expansionary fiscal policy, represents another element that needs to be taked into consideration when it comes to anti-crisis measures. There also is proof that a restrictive fiscal policy may be „expansionary” in certain ways, but the most important fact is that it can change the behaviour of the economic agents and investors by eliminating the fear of a possible increase of the taxes (Schuknecht& Tanzi, 2005), where fear materializes in reducing the consumption more than necessary on precaution criteria.

In addition, the deficit budget burdens the future generations, according to the intertemporal equivalence; in addition, it slows down the economic growth, and even though we make public expenditures of investment or of the final consumption, the public debt and its interest reduce the public investment. The econometric results show us that in the states where the public debt is over 90%, the economic growth is lower by 1.3% in comparison to those which have a low level of public debt (Reinhart& Rogoff, 2009).

Given that, at EU level is urgently needed to restart economic growth and sustainable development, fiscal consolidation, while reducing public debt, is subject to *limitations in terms of budget and fiscal instruments* that states can use its realization. The implications of using different types of fiscal budgetary tools we are highlighted below.

When it comes to the *public spending*, fiscal consolidation based on their reduction is considered to be more effective, as it is shown by the numerous studies conducted with this purpose (Alesina&Perotti, 1995; Alesina&Ardagna, 1998; Von Hagen et al., 2002; Maroto&Mulas-Granados, 2007). In addition, the public spending which lead to the economic growth (for education, research, infrastructure) and should represent the interest of the Member States, especially when the Europe 2020 strategy wants the economic growth based on investment in the human capital.

Though, also the increase of the tax revenue as an option to the fiscal consolidation, can be effective, but only with the condition that the overall tax burden, as a share of the tax revenue in the GDP, will be reduced and its implementation will be gradual (Tsibouris et al., 2006). The higher efficiency of the fiscal consolidation via the public expenditure can be justified by the signal

transmitted to the economy and to the financial markets is much stronger than the case of the increase of the tax revenues, especially since is is often accompanied by the reforms which aim to streamline the public services (Cotarelli&Viñals, 2009).

When it comes to *tax*, authorities should not raise the tax rates on the taxes which have a major impact on the economic growth, especially not on income tax or profit tax. As it is shown in the literature from this domain (Johansson et al., 2008), various types of taxes can be classified according to the gross domestic product relationship and the change in the various types of taxes results in a large or in a low change. The correlation coefficient between GDP and taxes lowers when it comes to the income tax, the consumption taxes and the taxes on wealth. In the case of the taxes on wealth, we add that their existence does not affect or modify at all the evolution of the GDP/inhabitant, the correlation coefficient being almost zero. Taking into consideration the above finding, the European Union calls for the increment of the financial wealth tax and the consumption taxe's roles, among which the „green" taxes are considered to be an alternative which must be taken into consideration, especially when one of the declared objectives of the new Community Strategy is the environmental protection as a prerequisite of the assurance of a suitable economic growth. At the same time, the purpose is to reduce the taxes on labor in order to achieve another objective of the Community Strategy, which is the reduction of the unemployment while the share of the active population increases.

The introduction or increase of "green" taxes, which usually have a pigouvian tax form (indirect tax, which increases the final price of the output who generates negative externalities, thus decreasing the demand for that output – by A. C. Pigou -), may constitute a means of achieving dual objectives undertaken by the EU strategy: on the one hand, tax revenues increased, reaching the goal of fiscal consolidation, on the other hand, reduce consumption of polluting products (Toma, 2008). But, as the most of the "green" taxes are considered indirect taxes, the impact on the degree of fiscal equity should not be overlooked. Some low-income household consumption includes the consumption of polluting, the tax included in final price having a regressive character.

Taxes on wealth can be used simultaneously as a way to increase tax revenue, and as a means of correcting inequalities of wealth among members of society, partly offsetting lower degree of fiscal equity of indirect taxes, and "green" taxes, in particularly. The appeal on property taxes it involves certain limitations, especially politically: they are very "visible" to taxpayers, thanks to technical procedures for charging, which could lead to negative public reaction to their introduction or increasing , while the political factor's reluctance to adopt such measures as they are essentially political cost carrier.

Even if tax rates increase revenue and profit is not an instrument of fiscal consolidation and friendly economic growth, increases tax revenues from these sources may be from other reasons: the European Commission recommends, on one hand, the expanditure on the tax base and, on the other hand, the improvement on the tax administration (including the increment on the degree of the collection of the revenue tax).

Eliminating the tax incentives, is based on the recent studies wich have shown that, in most of the times, they reduce the tax revenue and they also complicate the tax system without reaching the goals (Bird, 2000; Bird, 2008). The simplification of the tax base with the elimination of the inefficient tax incentives can be considered a win situation, both on the efficiency line (by reducing the administration costs, both at the taxpayers and at the tax authorities) and on the equity line (a more equitable distribution of the tax burden, for example, by eliminating the possibility of the legal tax evasion).

Hence, with the purpose of stimulating the investment, the tax incentives are, in most of the cases, ineffective. Moreover, the tax incentives for the SME investment are inefficient because their size is given by the size of the profits most of the times, the size of the profit being relatively low or even nonexistent. Remaining in the area of SMEs, there is a possibility that the application of the lower rates of the corporate tax will remain ineffective, because the small firms' profit is often incorporated into the salaries of their owners.

However, in order to stimulate the research and the development, the effects are generally stronger than the alternative of granting subsidies, even though the studies show that the results are being modest. The support of the research and development activity can be considered another objective of the book „Europe 2020" and the tax incentives can be seen as a mean of achieving this goal.

In the case of income tax, it can be successfully used as a tax leverage, on the one hand in creating jobs (by reducing tax rates) and, on the other hand, by increasing the proportion of the assets and the elimination of the phenomenon of moral hazard, which is seen at people who receive various forms of social assistance. So, the tax incentives granted in order to make possible the return to employment, through income tax, have proved to be very effective: on the one hand, they reduced the social benefits, and, on the other hand, they lead to the increment of the tax revenues. The introduction of such incentives, along with the reduction of theprogressive rates (the coefficient of the correlation between the reduction of progressivity and GDP/inhabitant is high (Johansson et al., 2008) can also be seen as a solution that makes the welfare state to subsist (Sherman, 2008). In the same time, the effects will also be seen in the improvement of the public finances' situation.

Though, the anti-cyclical fiscal policy should not be abandoned under severe depression conditions and, especially not when the situation of the public finances is good (Tanzi, 2005). It is well known that decline condition may persist for a long time if we do not apply an external stimulus which can change the downward trend of the social product. The existence of „some deep inbalances and dysfunctions of the market's mechanisms, which affect both cash flows and real ones" justifies the promotion of a deficit budget financed by borrowing as an imposed measure, in the first place by the need to unlock and revive the economy in times of recesion or stagnations when it does not work normally and it does not fully regulate on its own (Filip, 2002). According with the existing literature, the effectiveness of the discretionary budget fiscal policy is assured only if several conditions are fulfilled. Among these we state: the propensity to consumption must be high; the preference for liquidity must be very sensitive to the interest rate and the investments must have a low elasticity in comparison to the rate of the interest; the additional demand created must meet a strong potential offer (highlighted by the existence of the underutilized production capacity in different sectors of the economy); automatic stabilizers should be reduced, fact that increases the budgetary discretion (in U.S.A. they are lower than the ones in Europe); the budget deficit created doesn't have to lead to an unsustainable public debt.

FISCAL CONSOLIDATION – EMPIRICAL IMPLICATIONS

Occurrence and manifestation of the economic crisis led to the worsening of public finances situation. Thus, in all member states, in 2009, the public deficit was a certainty, in some of the states being very high and exceeding the average stated in 2009, at the EU level, of –6.8% from the gross domestic product. It is the case of Greece (-15.4%), Ireland (-14.4), Great Britain (-11.4%), Spain (-11.1%), Latvia (-10.2%), Portugal (-9.3%) and Lithuania (-9.2%).

If we take a look at the dynamics, the EU deficit budget, in 2009 increased sharply from 2008, when its value grew up to 2.3%of GDP, and especially from 2007 when its value was only 0.9% of the GDP (European Commission, 2011).

In most of the Member States, the deterioration of the budget balance was produced, on the one hand due to the structural factors (resulting in a decrease in the actual product which drew a decrease of the tax revenue, and on the other hand, increased the unemployment rate, leading to greater social benefits), and, on the other hand, also due to conjunctural factors (such as fiscal-budgetary measures taken in order to counter the economic crisis which resulted either in tax cuts or in a growth of public spending).

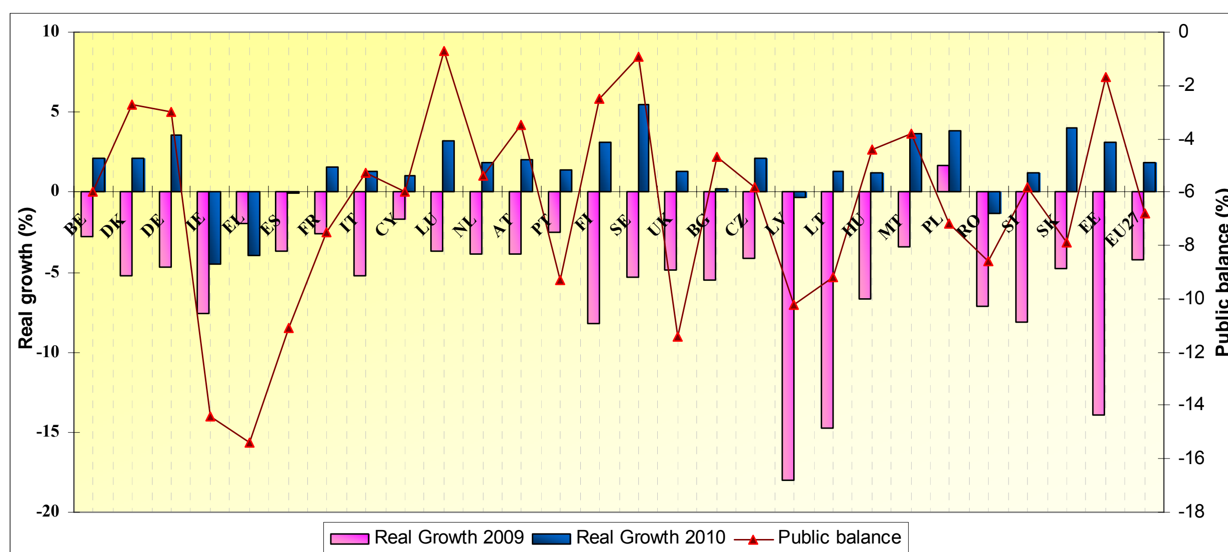

Figure no. 1. The evolution of real economic growth in 2009 – 2010 period and the levels of public balance, in member states, in 2009

Source: *own calculations, based on statistical data available at following web address: http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/*

The visible signs of the economic crisis, fiscal consolidation have been the desire of the background in most Member States (except Ireland and Hungary). Priority became involved combating the negative effects of economic crisis to economic growth recovery.

The real positive effects have resulted in a slight recovery of the economic growth in most of the EU states, in 2010, as it can be seen in the ***Figure no. 1***. Among the great conquerors of the battle with the economic crisis, in 2010, we find Sweden (5.5%), Slovakia (4%), Malta (3.7%), Germany (3.6%), Luxembourg (3.2%), Estonia and Finland (3.1%). A number of states have failed to emerge from recession: Ireland, Greece, Latvia, Romania and Spain. Even though, in 2010, 22 of the Member States had a positive real growth, the situation was better in comparison to the year of 2007, but the economic situation still remains critical, because in most of the cases the economic downturn was more deep in 2009 (as in the case of Lithuania, Estonia, Finland, Slovenia, Italy, Hungary) and the level of the gross domestic product remains far behind the one stated before the crisis, in all the Member States (European Commission, 2011).

The most ambitious plans – as can see in *Table no. 1* - to recover the economy, like in GDP, were employed, as can be seen in the table below, by the U.S. (5.6%), Spain (3.5%), Germany (3%), Finland (3.1%) and Sweden (2.8%).

The measures taken by the *U.S.* government have been directed towards supporting a low and middle income people and less towards supporting business sector, tax incentives are more consistent for individuals (2.4% of GDP) than for legal persons (0.8 % of GDP). Also, a great part of public expenditures incurred by Recovery Plan were channeled towards social transfers (0.5% of GDP) and public consumption (0.7% of GDP), based on the findings of numerous studies showing that middle and poor-income individuals would benefit, especially, from public spending, unlike tax cuts, which would benefit more than those in upper income class.

In addition, theories in the last decades of the Cambridge English School argue that the presence of the public sector leads to a de facto redistribution in favor of equity holders (shareholders and associates), through taxes and against employees. Therefore, from measures to reduce tax, will benefit only capital owners, not employees from middle or lower class income.

Germany, despite a rather generous leeway (it recorded in 2007 for the first time since unification, a budget surplus), took measures to revive the economy, whose value, although high by comparison with other EU countries, were considered insufficient by the public. The measures were aimed specifically at supporting households rather than to support businesses.

Spain was considered a victim of its own structural imbalances, after 15 years of annual growth of over 3.5%. That held the potential rate of growth accompanied by a slow accumulation of capital. However, reduced public debt in the years before the crisis (public debt in 2007 was below 40%), allowed the adoption of a recovery plan, which focused on public sector investments and supported the automotive sector, given its crucial importance in the Spanish economy (Spain is the third largest automobile manufacturer in Europe). However the measures taken were insufficient to support the construction sector, which provided a quarter of economic growth and of the number of jobs.

Table no. 1. The structure of fiscal-budgetary measures taken by some states, in 2008-2010 (as % of GDP in 2008)

Countries	**Total**	**Tax Measures**			**Spending measures**	
		Total	**Of which:**		**Total**	**Of which:**
			Personal income tax	Corporate tax		**Investment**
France	-0.6	-0.2	-0.1	-0.1	0.4	0.2
Germany	-3.0	-1.6	-0.6	-0.3	1.4	0.8
UK	-1.4	-1.4	-0.6	-0.1	0.1	0.1
Italy	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Spain	-3.5	-1.6	-1.6	0.0	1.9	0.7
Belgium	-1.6	-1.0	-0.3	-0.6	0.6	0.1
Austria	-1.1	-0.8	-0.1	0.0	0.3	0.1
Portugal	-0.8	…	…	…	…	0.4
Denmark	-2.5	-0.7	…	…	1.9	0.8
Ireland	*4.4*	*0.0*	*0.0*	*0.0*	*-4.4*	*0.0*
Greece	…	…	…	…	0.5	0.1
Finland	-3.1	-2.7	-1.9	0.0	0.5	0.3
Hungary	*4.4*	*0.0*	*0.0*	*0.0*	*-4.4*	*0.0*
Sweden	-2.8	-1.8	-1.5	-0.2	0.9	0.3
Netherlands	-1.5	-1.4	-0.2	-0.4	0.1	0.0
Slovak Republic	-1.1	-0.6	-0.6	-0.1	-0.5	0.0
Czech Republic	-3.0	-2.5	-0.0	-0.4	0.5	0.2
USA	-5.6	-3.2	-2.4	-0.8	2.4	0.3
Japan	-2.0	-0.5	-0.1	-0.1	1.5	0.3

Source: *modified by www.oecd.com*

Note: *Negative values indicate an increase in the budget deficit, as a result of the increase or reduction in public expenditure, respectively tax revenues*

Italy has not had a leeway at the beginning of the economic crisis because of enormous public debt of 105% of GDP (OECD, 2010). Therefore, new measures have amounted to only 0.5% of GDP, consisting of aid to disadvantaged people and less to business people through tax incentives. Therefore economic forecasts for Italy were among the worst in Europe.

Great Britain was among the first states to have entered a recession, with a drop of 1.6% in 2008, due in part to the adventurous housing market behavior. The measures taken have been at least surprising, therefore reducing the VAT. Others have endorsed either support the housing market or increasing unemployment. The overall recovery plan amounted measures to 1.4% of GDP, an amount more modest than other countries in the region. The economists view that anti-crisis measures have been geared more towards supply rather than demand-side, given the risk that the VAT reduction will not only lead to increased profit margins for traders. No further tax measures aimed at demand is basically explained by the indebtedness of the population, the British government would have risked only causing an increase of savings rate rather an increase in consumption (OECD, 2008).

The budgetary and the fiscal measures taken by most of the Member States together with the decrease of the tax revenues, on the background of the economic crisis, led to an increase of the public debt which is very pronounced in some of the cases because it exceedes a threshold of 60% imposed by the Pact of Stability and Growth, in some of the Member States. In addition, most of the countries from the European Union recorded a high governamental debt by the time the crisis started, without even registering significant changes in order to justify the size of the public debt (European Commission, 2011). In the year of 2008, only Bulgaria, Latvia, Lithuania, Estonia, Luxembourg and Romania had the level of public debt below 20% of the gross domestic product (European Commission, 2010).

Among states with high levels of debt, over 60% of GDP in 2009 (***Fig. 2***), we notice Greece, Italy and Belgium. Looking in a dynamic point of view, spectacular growth of public debt (more than with 15 percentage points) was recorded in Ireland, Britain, Spain, France and the Netherlands, with U.S.

In 2010, the trend of increasing public debt was maintained in most countries, even though the previous year, the amplitude increase was not as high (European Commission, 2011). Exceptions are Estonia, Sweden and Malta, with a slight decrease. Simultaneously, budget deficits have continued to be a constant public finances in 2010 in all Member States (except Sweden), although the trend was slightly decreased, from 6.9% of GDP in 2009 to 6.6% in 2010 (European Commission, 2011).

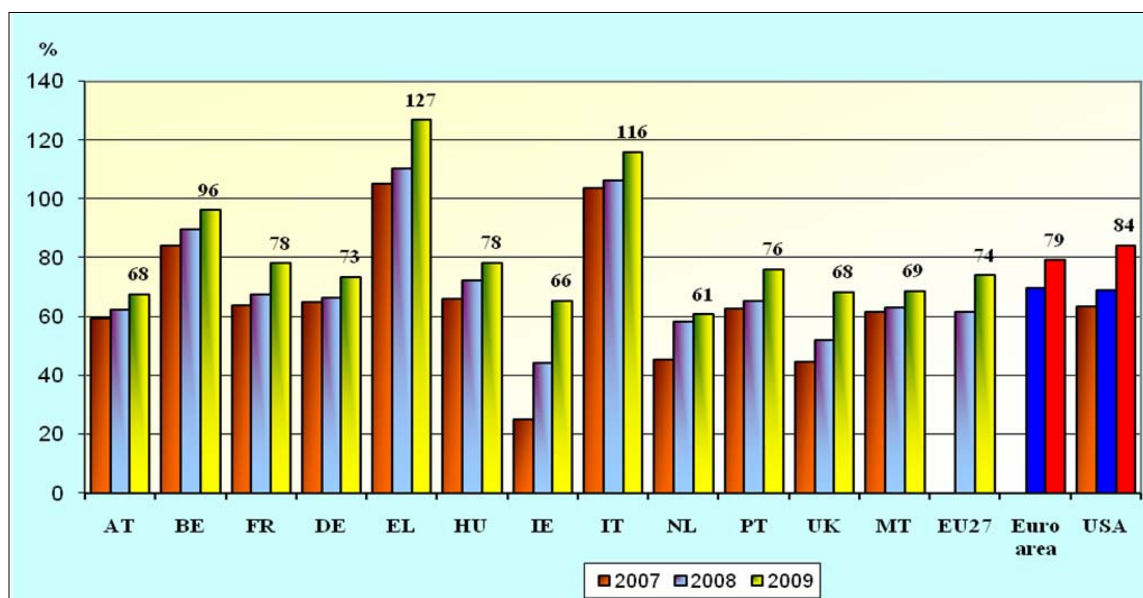

Figure no. 2. Evolution of public debt (as % in GDP), in some member states of EU, in period 2007-2009

Source: *own calculations, based on statistical data available at following web address:* *http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/ (for EU)* *and http://stats.oecd.org/Index.aspx (for U. S.)*

Distribution of Member States according to the level of public deficit / surplus and government debt in 2010, lead to outline the three groups of countries: *the first group*, located within the limits provided by the Treaty of Maastricht (the Northern States, plus Luxembourg Estonia - as a result of its accession to euro area in 2011 - and Bulgaria), a *second group*, intermediate (remaining Member States entering the Union after 2004, except Malta, Cyprus and Hungary), where although the debt is below 60% of GDP, public deficit exceeds 3% of GDP, a *third group*- rest of member states- where public finances deteriorated regarding the public deficit (over 3% of GDP) and the public debt (over 60% of GDP). Greece is one extreme, the highest level of public debt and budget deficit of over 9% of GDP (***Fig. 3***).

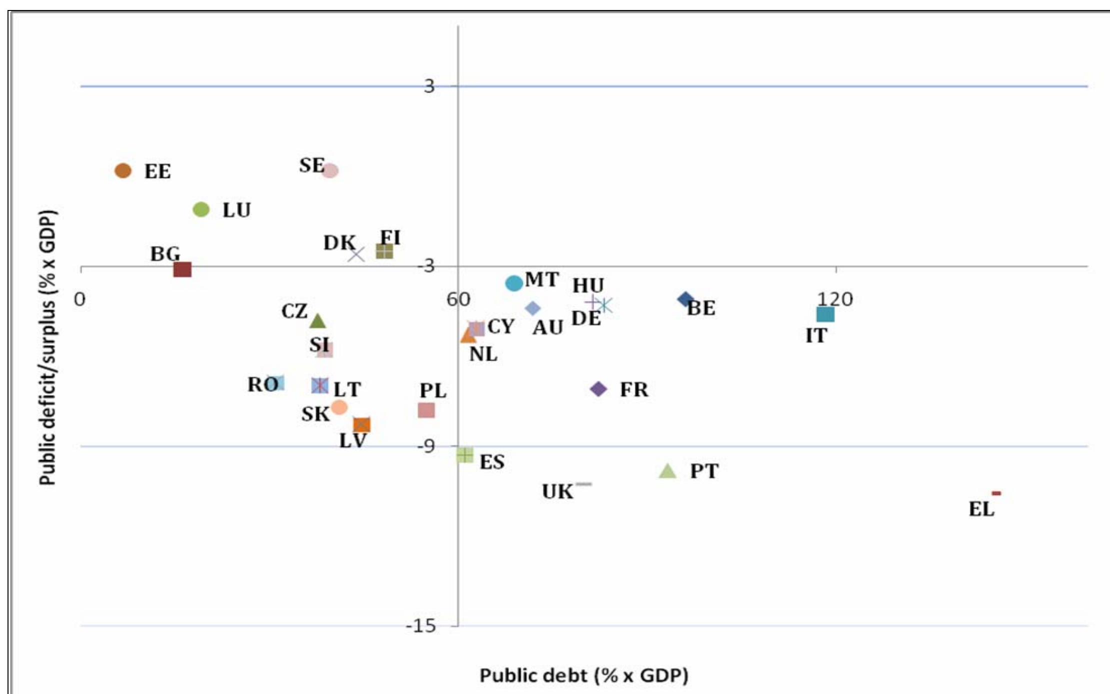

Figure no. 3. Distribution of member states according to the level of public deficit/surplus and public debt, in 2010

Source: *own calculations, based on statistical data available at following web address:* *http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/*

On a closer look we find that the level of fiscal pession, in conjunction with the public deficit and debt, emphasizes that the Member States have very little leeway in the growth of the taxes with the purpose of reducing the budget deficit and the government debt. Where this situation exists, the only thing left to do is the fiscal consolidation by the reduction of the public expenditure, or measures of improving the tax administration can be taken.

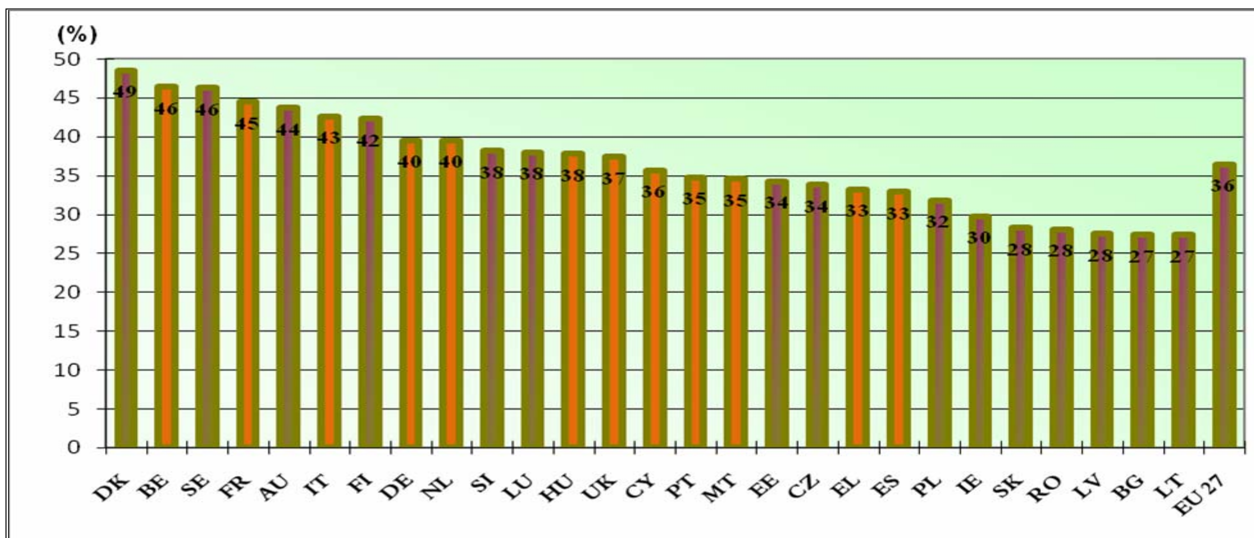

Figure no. 4. The share of tax revenues (including social contributions) in GDP, in EU, in 2010

Source: *own calculations, based on statistical data available at following web address:* *http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/*

Thus, looking at ***Figures 3*** and ***4***, we find that a number of states in the third group, respectively Belgium, France, Italy, Germany and Netherlands, is having high levels of tax burden, which limits fiscal consolidation by increasing taxes, while the remaining Member States have

margin in the manoeuvre of fiscal consolidation through increasing taxes, in both cases imposing of the major and immediate action of the public authorities; Member States of the second group, although debt levels well below 60 % of GDP, have high budget deficits, which also requires measures of fiscal consolidation, most imposing a regarding scope and its implementation through increased taxes (except Slovenia).

CONCLUSIONS

In 2008- 2010, public finances worsened in the European Union due to economic and financial crisis in almost all of Member States, the budget deficit and the public debt overtaking the limits imposed by the Maastricht treaty. Also, a number of Member States were registering budgetary deficits and public debt levels before the onset of the crisis, only it aggravating the existing situation.

Amid the emerging new European Union strategy whose central objective is to promote sustainable economic growth, fiscal consolidation, especially the public debt reduction has become a prerequisite for the restore growth.

Simultaneously, the pursuit of fiscal consolidation should be done in a manner consistent with promoting economic growth, which limits the appeal to a range of budgetary and fiscal instruments, either on line taxes or public spending on line.

The sacrifice, in present of situation of public finances to leverage, in future, growth as a prerequisite to achieve the objective of fiscal consolidation, is quite limited in those countries where public debt is high, due to turbulence financial market.

In these conditions in some Member States, of which we distinguish those of the third group examined, fiscal consolidation proves to be more difficult that of that economic crisis started in the previous period, being limited on the one hand the need for recovery growth, and on the other hand, and in some existing conditions (including the tax burden may be an important element) in the Member States concerned. As well, should not be overlooked in political and social implications of unpopular measures to increase taxes or reduction of public expenditure, which may attract a more difficult implementation of fiscal consolidation.

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