

FISCAL POLICY IN AND AFTER CRISES

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Abstract: *The general objective of this paper is to present the sustainability of fiscal policy measures in times of financial crises and after, when the economy recovers. Our aim is to provide some possible measures, lessons, recommendations and best practices that can be used in the future concrete situations. In addition, in this paper we analyze the use of fiscal tools from different doctrinal perspectives.*

Keyword: *Automatic stabilizer, Economic crisis, Taxes and benefits, Fiscal policy, Fiscal sustainability.*

JEL Classification: E32, E62, G18, H21

INTRODUCTION

The economic literature reveals two types of approaches to fiscal sustainability, the first uses econometric techniques to determine whether fiscal policy is sustainable in the past, and second, trying to assess future tax policies, analyzing projections on economic growth and fiscal policy indicators (Alesina et al., 2002).

They were born impressive debate in the literature about how countries have resorted to discretionary measures to mitigate the negative effects of the financial crisis or whether they were based on the automatic stabilizers to adjust macroeconomic. The problem is whether countries that has some weak automatic stabilizers offset by discretionary fiscal measures. This dilemma arises from the fact that economic stabilization is associated primarily with the ability to stabilize taxes and transfers income and consumption automatically given that the economy is facing a crisis period.

SPECIFIC USE OF FISCAL INSTRUMENTS

Government decision maker's reaction to economic and financial crisis was different (Hörisch, 2013; Mike, 2011), some governments prefer to prepare and implement extensive economic incentives, others preferring restrictive fiscal policy instruments (such as Ireland and Hungary), each choosing the balance to either stimulated or inhibited.

As is known, the financial crisis has caused many shortcomings of the EU countries, the fiscal situation deteriorated dramatically in these countries. Thus, different countries have approached financial support programs (van den Noord, 2011), (so we can identify Ireland, which provided for this mechanism almost twice its GDP, other countries like United Kingdom, and Belgium have used 20-30% of GDP to support effectively the economy, and another group of countries, including Austria and Germany, whose support was actually around 10% of GDP). In addition to direct costs, there are indirect fiscal costs, which are found in deteriorating fiscal situation, and rising cost of public debt (Bénassy-Quéré and Roussellet, 2013).

For example, Greece (Monastiriotes, 2013) has made great efforts in recent years to ensure fiscal sustainability, reducing its huge budget deficit. Some of these measures were aimed at reducing public sector wages by 10% or limiting public sector employment, increase the VAT rate from 19% to 21% and then to 23% and excise duty, reduction of bonuses received by employees or retirees the introduction of new taxes on luxury goods consumption, on pensions or higher profits. Another type of measure that has promoted the Greek government was to strengthen the control of public expenditure and investments. On the other hand, the pension system has also been restructured, increasing the retirement age from 60 to 65 years to reach the target by 2015, introducing a system of penalties for those who withdraw from the labour established earlier.

Following these steps in the cascade, the budget deficit was reduced by 5% from 2009 to 2010, but growth is still not revealed. The Greek government has instituted a compulsory holiday for public sector employees who were near retirement age and took into account the flexibility of the labour market. In addition, there were still introduce other taxes on property and social benefits were cut.

All these fiscal measures have generated discomfort among citizens and political instability. But measures continued to be taken, so the payments on the public sector were reduced by 25%, while tax rates have risen by more than 20% in three years. Results tough for the government and citizens have ceased to occur, such as private sector wages declined and the unemployment tripled. So many negative effects, incoherent and too few solutions to the problems faced and are facing Greece. It is true that the budget deficit has declined, but this was not due to direct measures of public spending and taxes, but other instruments that directly targeted budget deficit and public debt, helped the state by international financial institutions.

However, the austerity measures implemented at the state level have not been beneficial for the economy of the state concerned, inhibiting investment and demand and leading to increasing unemployment and general economic conditions degradation. Thus, some authors (Monastiriotes, 2013) opined the management of this crisis of the Greek

political system revealed five types of failures: failure of communication with citizens, coordination failure of parties political, negotiation failure with eurozone partners, failure to implement austerity measures and the failure of strategy. But efforts still continue in the current context and the main target should be structural problems of the Greek economy.

The austerity measures implemented by the Government of Ireland (Hardiman and Regan, 2013) have generated positive effects on the economy, and that one of the reasons being the fact that this country has an export-oriented economy. One of the serious problems in the crisis was to recapitalize the banks, which generated an increase in public debt in GDP from 40% to 100% and even 120% in 2013. In Ireland, agreement with international financial institutions aimed at reducing the budget deficit, which reached 7.3% in 2008 and 14% in 2009 (due to the reduction of budget revenues by 20% and increase the level of public spending to 20% of GDP in this period), but had negative effects on economic performance, the economy experienced a strong fall (between 2008 and 2011 decreased in real terms by 14.5%), which worsened living conditions for citizens and led to increasing levels of unemployment.

The crisis also influenced the economic performance of Italy (Goretti and Landi, 2013) generating an increase in unemployment (from 8.4% in 2010 to 11.4% in 2013) while indicators of public finances are out of control so the government had to intervene to reforming the pension system and improving the business environment; outside them, the Italian government has relied on the strength of automatic stabilizers, limiting discretionary measures (Dolls et al., 2012).

In addition, Slovenia (Neck *et al.*, 2013) suffered greatly as a result of the financial crisis, public debt as a percentage of GDP increased from 22% in January 2009 to 54.1% in 2012.

Regarding Spain (Conde-Ruiz and Marín, 2013), one of the most important problems of this country is unemployment, whose level has reached 26 % in 2012 because the economic crisis has affected labour-intensive sectors. In addition, the fiscal crisis in Spain is mainly on the present income level due to expansion of the black economy and tax evasion and, not least, the housing bubble. The Spanish government has implemented the first phase of a series of measures expansive fiscal policy (to reduce taxes, as they were some measures on income and corporate tax, and the expansion of public expenditure types, eg local investment or to support strategic areas). In the second phase was implemented a series of fiscal consolidation measures to address the excessive deficit, which involved tax increases or creating new taxes (VAT, eliminating some deductions, etc.) and public spending cuts (reducing or freezing public sector wages, reduced public investment, limiting the granting of certain social benefits).

CONCLUSIONS

Fiscal policy is an important tool that policy-makers can use it when the economy is facing economic and financial crisis. Both types of interventions, automatic or discretionary, are effective and taken into account in public financial instruments creating packages.

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