



**The Parliament of Romania
Senate**

Bucharest, 30 March 2018

Courtesy translation

**OPINION
of the ROMANIAN SENATE
regarding the Proposal for a COUNCIL DIRECTIVE laying down provisions to strengthen
fiscal-budgetary responsibility and medium-term budgetary stance in the member states
COM (2017) 824 final**

The Romanian Senate, pursuant to art. 67, art. 148 (2) and (3) of the Romanian Constitution and the Protocol no. 2 annexed to the Treaty of Lisbon amending the Treaty on European Union and the Treaty on the Functioning of the European Union, signed in Lisbon in 13rd December 2007, has examined **the Proposal for a COUNCIL DIRECTIVE laying down provisions to strengthen fiscal-budgetary responsibility and medium-term budgetary stance in the member states - COM (2017) 824 final.**

Having in view the report of the Committee for European Affairs from 22nd March 2018, **the Romanian Senate**, issued on 28th March 2018 an OPINION, as follows:

(1). It notes that the proposed Directive partially respects the principle of subsidiarity in terms of economic coordination and European governance, including accountability. However, there are questions about the legal basis of the quantitative criteria, as well as the establishment of independent bodies.

(2). Considers that the medium-term numerical objectives (MTOs) affect the budgetary competence of the member states and their national parliaments. The „one-size-fits-all” principle has proven to be economically unviable in practice, in the context of the many challenges facing the Union at present and the differences in development and potential between member states.

(3). The proposal complies with the principle of proportionality in terms of the legal form chosen, directive, but in terms of content either it goes beyond what is necessary to achieve its objectives, or it is inappropriate.

(4). The TSCG assumptions - the application of austerity in the public domain - as a solution to the difficulties created by the crisis and the construction of the monetary system, have been theoretically and practically denied.

(5). The establishment of „independent bodies”, with functional autonomy related to the budgetary authorities of the member states and operating in accordance with national legal provisions, to monitor and require the budgetary authorities to activate the correction

mechanism, does not confer legitimacy from a democratic point of view of democratic view and no guarantee of greater accountability than the democratically elected/invested bodies. The proposal is also inappropriate in the context of repeated allegations of non-democratic functioning of the European institutions; it can be used by eurosceptic and populist currents to amplify anti-European reactions.

Additional arguments:

a) The context and lessons learned after 5 years of application of the TSCG lead to different conclusions. Public austerity delayed the exit from the recession. The economic crisis was the result and condition of some risky actions in the private area, not because of the waste of the ordinary citizen. States generally intervened using money and public guarantees to save the financial banking system; they are not the cause of the crisis and should not be punished for that.

b) Theoretically, the austerity was based on an unauthorized extrapolation to macroeconomy of a macroeconomic analysis. At a macroeconomic level, the expense of an agent is the income of another. Limiting public spending keeps the recession or worsens it, diminishing demand.

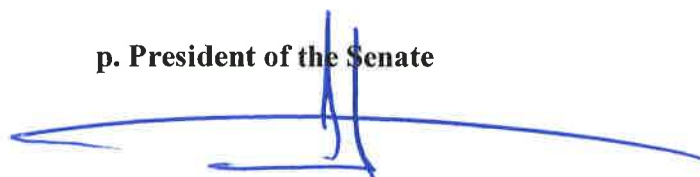
c) The development of public services can be financed by credit, as well; the deficit within reasonable limits is not in itself bad, as it is no good. It depends on the goals for which it is used and the efficiency and responsibility of achieving them. The austerity policy promoted by some governments is in fact a policy of maintaining the status quo: the rich remain rich, the poor, poor, and the gaps are preserved. On the other hand, the capacity of the public sector states/share is reduced and, as a result, the quantity and quality of public services, directly affecting the citizen and his confidence in the institutions. For these reasons, austerity is not a rule of macroeconomic behavior that guarantees the success of a society's development.

d) The „independent bodies” proposed to monitor fiscal deviations or compliance with budget rules do not have the necessary capacity to provide a medium and long-term economic vision, as have the Parliaments and Governments (responsible for setting development goals). But there is a contradiction as long as „short-term” thinking has been identified by the European Commission itself as one of the causes of the crisis.

e) Unclear indicators or concepts are still used, or which are based on questionable or long-denied economic theories – „structural deficit”, „natural unemployment rate” or „Phillips curve”.

f) The proposal does not take into account the need to reform the indicators of the SGP in two directions - making the application more flexible according to the concrete conditions and adding indicators such as the balance of payments. Macroeconomic imbalances are correlated with surpluses/deficits of the balance of payments to a much higher extent than budget deficits.

p. President of the Senate



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