FISCAL CONSOLIDATION IN TIMES OF UNCERTAINTY: BETWEEN SUSTAINABILITY AND SOCIAL EQUITY

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Abstract:

In the history of contemporary economies, increasingly frequent crises and rapid technological transitions have favored the emergence of periods of uncertainty that have required conjunctural adaptations and strategic reconfigurations, often directly targeting fiscal-budgetary policy, respectively the fiscal consolidation process. In this context, the paper aims to analyze the issue of fiscal-budgetary consolidation in periods in which economic and social uncertainty are prominent, with an emphasis on maintaining a certain balance between budgetary sustainability and social equity. A complex approach is proposed to overcome the exclusively numerical vision, percentages, and aims to integrate economic and social dimensions. It also aims to capture national experiences (Greece, Romania, Germany, Portugal, Hungary and Bulgaria) and integrate the main theoretical paradigms (Keynesianism, neoliberalism, social justice). The results lead to the conclusion that the efficiency of consolidation depends on the state's capacity to ensure the balance between fiscal discipline and social equity.

Keywords: fiscal consolidation, sustainability, social equity, uncertainty, public policies

JEL classification: *H12, H50, H60, H62*

Introduction

Concerns about fiscal consolidation have increased significantly in recent decades, and this is a frequently discussed topic also due to its conceptual diversity. The persistence and size of budget deficits, the volatility and uncertainty regarding their evolution, represent, beyond budgetary accounting, issues of concern for economic stability and social cohesion in many societies. The increasingly frequent and diverse crises, from the global financial crisis of 2008–2010, to the health crisis generated by the COVID-19 pandemic, to the energy crisis, the inflationary crisis and even the geopolitical one, have forced states to take rapid, sometimes contradictory decisions, in order to support and ensure a certain balance between economic stability and the increased social needs of the population.In this situation, fiscal consolidation becomes increasingly important and new values are attributed to it, namely from the stage of a technical instrument for adjusting the budget deficit and stabilizing public debt, it is seen as a much more complex process, with social and even political implications

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through which states seek to maintain a balance between the medium and long-term economic and fiscal perspective and the present social responsibility. These two simultaneous objectives sometimes create structural difficulties, in the sense that a possible fiscal-budgetary measure implemented to ensure economic stability may be perceived as socially unfair and vice versa.

Thus, concerns and analyses regarding fiscal consolidation go beyond the traditional technical approach to budget deficit and public debt, and additionally reflect the way in which the burden of fiscal adjustments is distributed, the legitimacy of institutions, and the social contract between the state and citizens. Relatively recent experiences suggest that a fiscal consolidation implemented quickly and rigidly, without taking into account the social context, can generate instability and social movements, while a fiscal consolidation implemented late can affect confidence in the Government and in financial markets.

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Description of the problem and Literature Review

The increased concern for fiscal consolidation has led to the emergence of a generous interdisciplinary literature in this thematic area, from economic, political, to sociological approaches, in which sense we will attempt a structured approach to the main directions identified.

One of the main ideas that emerge from economic theory and literature is that the process of fiscal consolidation has different effects depending on the economic context – in recession, austerity deepens the crisis, and in expansion it can be less costly. Among the promoters of this idea are: Keynes (1936), who substantiated the idea that in periods of recession, reducing public spending worsens the crisis. From this perspective, procyclical fiscal consolidation is considered counterproductive; Blanchard & Perotti (2002) who analyzed the impact of fiscal shocks on GDP, showing that spending cuts have more pronounced recessionary effects than tax increases; Wyplosz (2012) drew attention to the paradox of fiscal consolidation, namely that too much fiscal discipline in a crisis can even undermine long-term sustainability.

Another strong idea is that fiscal sustainability cannot be reduced to numbers, but requires institutional trust and political legitimacy. Its supporters include, among others: Musgrave (1959) who shows that fiscal sustainability cannot be understood only through budgetary accounting balances, but requires a legitimate social contract between the state and taxpayers; North (1990) demonstrates that economic performance and fiscal stability

fundamentally depend on the quality of institutions: the state must inspire credibility and predictability; Stiglitz (2012) states that unfair fiscal policies destroy the legitimacy of the state, affecting its ability to maintain budgetary balance; Blanchard & Pisani-Ferry (2023), explicitly states that currently fiscal sustainability is a political and institutional construct, not just a debt/GDP ratio.

Another idea is that social equity is essential, and fiscal consolidations perceived as unfair are difficult to implement and can generate instability. This is supported by Rawls (1971), who formulated the difference principle by which he considers that policies are just if they benefit the most disadvantaged, and by Sen (1999), who emphasized that development and public policies should be evaluated in terms of the freedoms and capabilities of individuals, not just macroeconomic aggregates.

Recent crises have also contributed to the development of specialized literature, emphasizing the nuances of flexibility and adaptability of fiscal consolidation strategies, in the sense of their ability to gradually orient towards both objectives - medium and long-term fiscal sustainability and ensuring social equity in the short term.In agreement with this idea, OECD (2015) shows that inequalities reduce the potential for economic growth, recommending fiscal consolidation with adequate social protection; IMF (2013) recognized the negative effects of excessive austerity and advocated for gradual consolidation, with measures to protect vulnerable groups; Gaspar, Mauro & Pattillo (2020, IMF) emphasized that, in the context of the COVID-19 pandemic, the immediate objective was social protection and economic support, and fiscal consolidation should be postponed, but not ignored; European Fiscal Board (2021) advocated for more flexible European fiscal rules, allowing for green and digital investments in parallel with budgetary discipline. And Bruegel (2022) recommended integrating the concept of “social sustainability” into fiscal policies, to avoid polarization and erosion of the social contract.

Methodology

The analysis of fiscal consolidation in times of uncertainty requires an interdisciplinary and mixed methodological approach, since the topic investigated cannot be reduced exclusively to the purely mathematical or strictly macroeconomic dimension. Thus, in an integrative manner, the methodology proposes a conceptual-theoretical approach, for anchoring in established theories, and a comparative-applied one, for evaluating practices and results in different national contexts. This method allows for the description of the phenomenon and its interpretation in relation to the pursued objective, the identification of the conditions under which fiscal consolidation can be both sustainable and equitable.

Problem Statement and Analysis

Conceptual and theoretical analysis

Fiscal consolidation is a multidimensional concept, located at the intersection of economics, politics and social philosophy, its interpretations differing depending on the theoretical paradigm used, and understanding this diversity of perspectives is essential for formulating balanced policies. In this approach, the first stage of the analysis consists of conceptual clarification and substantiation, in which the main theoretical paradigms relevant to the topic of fiscal consolidation were examined, namely Keynesianism, with an emphasis on the role of countercyclical policies, neoliberalism, which focuses on budgetary discipline and the role

of markets, and social contract theory through which equity and protection of vulnerable categories are assessed.

Keynesianism, whose foundations were laid by the famous paperThe General Theory of Employment, Interest and Money (1936), opines between fiscal incentives and the avoidance of pro-cyclical austerity, supporting active public intervention in periods of recession. Thus, from this perspective, Keynes proposes an anti-cyclical vision, namely that deficits are justified in periods of recession, and fiscal consolidation must be carried out in phases of economic growth, when the state can accumulate budget surpluses. From this approach, we note that the process of fiscal consolidation is not an end in itself, but a tool that must be used depending on the position of the economic cycle. In times of uncertainty, the rigid application of fiscal consolidation risks accentuating instability instead of balancing it.

On the other hand, the neoliberal current, based on the ideas of well-known economists (Hayek, Friedman, Buchanan, Nozick), supports a diametrically opposite approach, namely fiscal consolidation is seen as a permanent imperative, regardless of the phase of the economic cycle. Budget deficits are considered harmful in themselves, because they reduce investor confidence, distort markets, generate inflation and unsustainable debts. In this neoliberal perspective, fiscal discipline is seen as the foundation of economic growth, meaning that the state must limit its role to ensuring the framework for the functioning of markets, and the adjustment of imbalances is done by reducing spending and easing the fiscal burden on the private sector.

In the context of our objective, this neoliberal vision may sacrifice social equity in favor of sustainability by reducing investments in education, health and social protection. Even so, the neoliberal vision has massively influenced fiscal consolidation policies in recent decades, especially in the EU, where the rules of the fiscal-budgetary framework are strict (Maastricht criteria, Stability and Growth Pact) and reflect this disciplinary spirit.

From the perspective of social justice, of the social contract, a less economic one, but very important in the efficient implementation of a fiscal consolidation process, a direction is given by the paperA Theory of Justice (1971), by John Rawls, in which the difference principle was formulated, namely the fact that inequalities can be tolerated only if they benefit the most disadvantaged. Brought to the fiscal realm, this implies that consolidation measures must be fair and protect vulnerable categories.

Thus, the adjustment cannot be distributed uniformly, but proportionally to the support capacity of each social class.In the same perspective of social justice, Sen (1999, Development as Freedom) complemented Rawls's vision, emphasizing capabilities and freedoms and argued that the success of a consolidation policy is not measured only in reduced deficits, but also in the way it preserves access to education, health and economic opportunities. From this perspective of social justice, we note that he brings and introduces into the debate on fiscal consolidation the concept of social legitimacy, which argues that a fiscal adjustment is considered sustainable only if it is perceived as fair.

Synthesizing the results of the conceptual analysis through the lens of the three paradigms, we note that they offer different visions on the interpretation of fiscal consolidation, namely Keynesianism emphasizes the importance of the moment of consolidation, neoliberalism emphasizes discipline and the role of markets, and social contract theory focuses on justice and equity. Moving on to the practice and reality of fiscal consolidation processes, we note that fiscal-budgetary policies combine elements from all these paradigms. Fiscal consolidation can be sustainable and equitable only through a balanced mix, starting from budgetary discipline, paying attention to the economic cycle and simultaneously pursuing the protection of vulnerable categories.

Comparative analysis

The comparative analysis of the fiscal consolidation strategies applied by some EU states (Greece, Romania, Germany, Portugal, Hungary, Bulgaria), in recent decades, reveals significant differences in terms of the instruments used, the socio-economic context and the results recorded.

After the global financial crisis, ***Greece*** became an example of harsh austerity imposed under pressure from international creditors. Between 2010 and 2015, fiscal consolidation measures included drastic cuts in wages and pensions, tax increases, and accelerated structural reforms. Although these policies reduced the budget deficit and put the country back on a balanced budget path, the social costs were huge: unemployment of over 25%, massive emigration, increased poverty, and a deep crisis of trust in institutions. The legitimacy of these measures has been constantly challenged, showing that the fiscal sustainability achieved through extreme austerity is fragile and unsustainable in the long term.

Romania went through an episode of severe fiscal consolidation in 2010, in the context of the economic crisis and pressure from the International Monetary Fund. The central measure – cutting public sector salaries by 25% – managed to reduce the budget deficit in the short term, but had significant negative effects on the middle class and on trust in the state. Unlike Greece, Romania did not experience a generalized economic collapse, but the adjustment was perceived as unfair and left deep traces in the relationship between citizens and institutions. Currently, Romania is again facing a situation of fiscal consolidation, and the measures already approved and implemented seem to be oriented exclusively towards fiscal sustainability, and less towards social equity.

Germany is a unique case, as it has managed to combine fiscal discipline with social protection. The "*zero deficit*" principle has been rigorously applied, but without sacrificing essential public investment or weakening social protection. This approach has allowed it to maintain market confidence, ensure fiscal sustainability and protect social cohesion. However, critics have argued that excessive discipline has limited long-term investment potential, especially in infrastructure and the green transition.

Portugal, like Greece, underwent a severe fiscal adjustment program under the supervision of European and international institutions. However, unlike Greece, it managed to combine austerity measures with supportive social policies, notably through the partial protection of public services and through social dialogue. The result was a faster recovery of public confidence and a more robust economic recovery, although public debt still remains high.

Hungary adopted a more atypical fiscal consolidation strategy after the financial crisis, combining austerity measures with policies of partial nationalization of strategic sectors and special taxes on certain industries. Although these measures temporarily reduced the deficit, they generated tensions with foreign investors and European institutions. Hungary illustrates a "heterodox" consolidation model, which relied on centralization and political control, but which raises questions about its long-term sustainability.

Bulgaria is among the few European countries that have maintained consistent fiscal discipline, avoiding excessive deficits. However, this strategy has come at a social cost in the form of reduced levels of public spending on education, health and social protection. Bulgaria shows that fiscal sustainability achieved through permanent austerity can be compatible with financial stability, but at the expense of social equity and the quality of public services.

From the comparative analysis of the situations of the countries presented, several typologies emerge regarding the approach to the fiscal-budgetary consolidation process, namely:

- hard austerity model (Greece, Romania) managed to reduce deficits, but generated major social costs and an erosion of state legitimacy;
- balanced model (Germany, Portugal) combined fiscal discipline with social protection, managing to maintain social cohesion and external credibility;
- heterodox model (Hungary) or permanent austerity (Bulgaria) shows that there are alternatives, but each has its own vulnerabilities.

It is noted that the process of fiscal-budgetary consolidation is not a uniform one, but a deeply contextualized one, dependent on internal factors (administrative capacity, economic structure, political culture) and external (EU integration, role in global financial markets).

From the perspective of the objective of the paper, the results of the comparative analysis bring important nuances regarding the way in which different states have succeeded or not in harmonizing the two objectives of fiscal-budgetary consolidation: fiscal sustainability with social equity.

Countries such as Greece and Romania demonstrate that rapid and severe adjustments, based predominantly on reducing expenditures and increasing tax rates, can temporarily solve the problems of the budget deficit, but generate significant negative consequences: in Greece structural unemployment, poverty, exodus of qualified labor and a crisis of political legitimacy, and in Romania: the erosion of the middle class, the decrease in domestic consumption and the loss of trust in institutions.

Another, more favorable context emerges from the analysis of the cases of Germany and Portugal, which shows that the success of fiscal consolidation does not consist only of spending cuts or tax increases, but also of structural reforms oriented towards modernization and efficiency. Germany applied fiscal discipline simultaneously with investments in competitiveness and social protection, and Portugal compensated for budgetary constraints through social dialogue and the protection of certain public services. The experience of these two countries also demonstrates that smart reforms, consisting of the digitalization of the administration, the fight against tax evasion, the prioritization of investments with a multiplier effect, are essential to give a sustainable character to fiscal consolidation.

The experiences of Hungary and Bulgaria demonstrate that there are alternative models for approaching the fiscal-budgetary consolidation process, namely: Hungary, through a "heterodox" consolidation, resorted to special taxes and political control over some economic sectors, achieving temporary results, but with reputational costs and tensions with international institutions, and Bulgaria, through permanent fiscal discipline, maintained low deficits and low debts, but at the cost of chronic underfinancing of public services and deepening inequalities. These situations show that neither permanent austerity nor unorthodox solutions can constitute good models of sustainable consolidation.

A common element of all the experiences analyzed is the role of social acceptability, of the perception of social and fiscal fairness. Measures that were perceived as unfair were met with protests and opposition (Greece, Romania, Hungary), which reduced the political sustainability of the consolidation. In contrast, where governments managed to maintain the functionality of the social contract, through consultation, transparency, social protection and a more equitable distribution of the fiscal burden, the measures were better tolerated (Germany, Portugal).

Summarizing the results of the comparative analysis through the lens of the 6 countries analyzed and the findings retained, we note that the nature of fiscal consolidation and its effectiveness is dependent on the state's capacity to combine budgetary discipline with structural reforms and to maintain social legitimacy.

Conclusions

By exploring the fiscal-budgetary consolidation process, from conceptual-theoretical and practical perspectives, with the stated objective of achieving an integrated analysis of this process in times of uncertainty, with an emphasis on pursuing the simultaneous satisfaction of the two objectives - fiscal sustainability and social equity - it has been demonstrated that the fiscal consolidation process, especially in times of uncertainty, is not a simple exercise in adjusting the budget deficit, but rather it represents a multidimensional process viewed as a technical mechanism for reducing the deficit and public debt, by classical theories, and historical and contemporary practical experiences demonstrate that this must be viewed as a permanent negotiation between sustainability and equity. Fiscal-budgetary consolidation represents, in essence, an art of balance between the discipline of numbers and social solidarity, between responsibility for the future and the needs of the present.

For Romania, but also for states with a similar profile (Hungary, Bulgaria), the analysis suggests that future fiscal consolidation policies must avoid the trap of abrupt austerity and the following must be emphasized: broadening the tax base, reducing evasion, protecting fundamental public services (education, health, infrastructure), building a credible social contract, in which citizens perceive consolidation as a collective and fair effort, not as a unilateral burden.

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