Romania and Switzerland: Comparative Models of Fiscal Management. Good Practices and Soft Law

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ABSTRACT

The healthy, efficient, and sound fiscal management, as indicator of the health of the tax system in particular, and of the entire system of government in general is an essential aspect of the principle of good fiscal governance.

This article aims at analysing both Switzerland an Romania from the perspective sound fiscal management, with the purpose of identifying elements used by the Swiss administration to ensure a stable, efficient and effective fiscal policy, which may be adopted by Romania.

This comparative study between the Romanian and the Swiss fiscal management aims to consider only elements of soft law that can make a positive difference if implemented by the Romanian administration. The Swiss model of fiscal governance can bring to light solutions to increase fiscal capacity and resistance to economic shocks for Romania.

KEYWORDS: *good fiscal governance, sound financial management, debt brake, fiscal equalization, soft law.*

1. Introduction

A healthy, efficient, and sound fiscal management is a desiderate for any governing body, as it is one of the aspects which signal the presence of good fiscal governance. The academic environment is more and more engrossed in understanding, defining, and applying this principle in all aspects of the governing process, but even more so in the field of fiscal policy.

"Good governance most generally refers to a list of admirable characteristics of how government ought to be carried out— ‹‹Sweden or Denmark on a good day, perhaps››, as Matt Andrews has written. Indeed, much of the concept's popularity can be linked to the positive images it embodies"[1].

This definition captures perhaps the most important aspect of the principle of good governance, namely its flexibility in meaning and content. Some definitions of good

[1] Grindle, M., S., 2010, *Good Governance: The Inflation of an Idea*, HKS Faculty Research Working Paper Series, RWP10-023, John F. Kennedy School of Government, Harvard University, p. 2.

governance take a more economic approach, others tackle more social aspects. The common element is the idea that good governance is a desirable attribute of the entire governing mechanism of a country.

Good governance, as defined by the World Bank in 1989 is "central to creating and sustaining an environment which fosters strong and equitable development, and [...] is an essential complement to sound economic policies"[2].

The four areas where good governance is a priority, as established by the World Bank, are: public sector reform, political accountability, the legal framework for development, information, and transparency. The World Bank arrived at the conclusion that these are the four pillars of good governance by analysing the symptoms of poor governance, namely: lack of clear separation between the public and private sectors, lack of a predictable legislative and governmental framework, excessive regulation of certain areas, inefficient allocation of resources, lack of transparency in the decision-making process and lack of coherence between state development programs and their priorities.

After further studying the concept of good governance, the World Bank redefined it as: "open, and enlightened policymaking (that is, transparent processes); a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions, and a strong civil society participating in public affairs, and all behaving under the rule of law"[3].

It is highly noticeable that the World Bank considered the principle of good governance from an economic perspective, as it rather regards efficient policy-making end sustainable environment for economic policies.

Other international organizations came up with different definitions. For example, the OECD defines good governance as: "the rule of law, public sector management, controlling corruption and reducing excessive military expenditures"[4]. From OECD's point of view, the good governance principle leaves the economic approach aside and embraces a more social one.

For the United Nations the principle of good governance is the accumulation of the following conditions: 1. democratic pluralism; 2. rule of law, 3. a less regulated economy, a cleaner and less corrupt administration[5].

All these definitions adopted by international organizations signalled to the European Union the importance of this concept. Therefore, the European Union developed a definition of good governance, considering its own needs and ideologies[6].

The first attempt at conceptualizing good governance turned out to be far to general. As such, good governance, as defined by the White Paper on good governance, was limited to openness, participation, responsibility, effectiveness, and cohesion[7].

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[2] World Bank, 1992, *Governance and Development, p.* 1, available at: http://documents.worldbank.org/curated/en/604951468739447676/pdf/multi-page.pdf (accessed on the 08 September 2020).

[3] World Bank, 1994, *Development in Practice. Governance, p.* VII, available at: http://documents1.worldbank.org/curated/en/711471468765285964/pdf/multi0page.pdf, (accessed on 8 September 2020).

[4] OECE report, *Participatory Development and Good Governance*, p. 14, available at: https://www.oecd.org/dac/accountable-effective-institutions/31857685.pdf , (accessed on 8 September 2020).

[5] See United Nations Human Development Report, 1994, available at: http://hdr.undp.org/sites/default/files/reports/255/hdr_1994_en_complete_nostats.pdf (accessed on 8 September 2020).

[6] Cătană, E. L., 2009, *Principiile bunei guvernări. Evoluții europene și studii comparativ*e, Bucharest: Ed. Universul Juridic, p. 5.

[7] See Commission of European Communities, 2001, *European Governance: A White Paper*, COM(2001) 428, Brussels.

Further improvements have been brought to this definition through the Innovation and Good Governance Strategy adopted in 2008. According to its provisions, good governance involves: participation, representation and correct conduct of elections, responsiveness, efficiency and effectiveness, openness and transparency, the rule of law, ethical conduct, competence and capacity, innovation and openness to change, sustainability and long-term guidance, robust financial management, human rights, cultural diversity and social cohesion, responsibility.

After seeing all these definitions of good governance, we draw the conclusion that the concept is complex, taking different forms and contents according to the specific character of the institution that defines it.

On the other hand, the concept of fiscal governance has a more fixed meaning, being defined as the set of institutions, rules and norms that structure the governing process in the field of fiscal policy. Even though fiscal governance regards the way in which the budgetary policy of governments is planned, approved, implemented and monitored, it should not be limited only to these aspects, as it also involves private actors: citizens and business environments[8)].

In order to better understand the mechanisms in which public authorities, citizens and the business environment interact to create efficient fiscal policies, good governance and fiscal governance need to be considered together.

Based on the concept of good governance, this study aims to describe the mechanisms used effectively to ensure a robust fiscal management in the Swiss Confederation, which could be adopted by the Romanian model of fiscal governance.

The desire to realize a comparative study between the Romanian and the Swiss fiscal governance considering aspects that lead to efficient, effective and robust financial management, stems on the one hand form the necessity to establish as benchmark a European state with excellent results in terms of governing process, and on the other hand from the need to take into account the cultural element. Accepting that the cultural element influences the way in which laws are being created, interpreted and applied, it makes sense to have a comparison between a state that belongs to the German cultural space and one that belongs to the Balkan space.

2. Efficient, effective, and robust financial management

The Swiss Confederation is characterized by a three-dimensional system of government consisting of: the Confederation, 26 cantons and 2353 municipalities.

Article no. 3 of the Swiss Confederation's Constitution states the following: The Cantons are sovereign except to the extent that their sovereignty is limited by the Federal Constitution. They exercise all rights that are not vested in the Confederation[9)].

What makes this system functional is the intense horizontal cooperation (inter-cantonal and inter-municipal cooperation), but also the vertical cooperation (confederation-cantons, cantons-municipalities cooperation).

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8) See Anheier, K. H., 2013, *Governance Challenges and Innovations: Financial and Fiscal Governance*, Oxford Scholarship Online.

9) Federal Constitution of the Swiss Confederation, available at: https://www.admin.ch/opc/en/classified-compilation/19995395/index.html, (accessed on 10 September 2020).

The obligation to cooperate is also regulated by the Constitution. Therefore, article 44 states that the Confederation and the Cantons shall support each other in the fulfilment of their duties and shall generally cooperate with each other.

Furthermore, the Confederation and cantons are obliged to offer each other administrative and mutual judicial assistance. At the same time negotiation or mediation are recommended in cases of disputes between cantons or cantons and the Confederation.

The Swiss cantons differ in terms of size and topography, but also in terms of population and socio-monographic structure. In order to reduce the effects of low fiscal capacity and higher costs for services in certain cantons, Switzerland has set up an equalization system. Its purpose is not to bring the quality of life to the same level, but to reduce the differences in resources between rich and poor cantons. At the same time, the cantons that benefit from services offered by other cantons must pay compensations to the service providers. In this way, the cantons are obliged to cooperate if the public services are divided between two or more cantons. Moreover, cantons that provide services at the federal level receive compensation for them[10].

All financial relationships between the Confederation and the cantons are ruled by the national fiscal equalization project which incorporates the allocation of tasks and the redistribution of funds between the Confederation and the cantons. The objectives of the national fiscal equalization are to strengthen the canton's financial autonomy, to reduce the differences in financial capacity and in the tax burden between the cantons, to maintain the national and international tax competitiveness of the cantons, to guarantee the cantons a minimum amount of financial resources, to compensate for excessive financial burdens on the cantons due to their geographic, topographic or socio-demographic conditions and to ensure adequate intercantonal burden sharing[11]. The current fiscal equalization system has been in force since 2008.

“The former fiscal equalization system was introduced in Switzerland in 1959. It was further developed in the decades that followed, sprawling out of control to become a disordered and confusing system of vertical fiscal transfers from the Confederation to the cantons”[12].

Even though, in 2004 Swiss citizens realized the importance of restructuring the national fiscal equalization system by casting a YES vote in the referendum concerning the redesign of financial compensation and of division of fiscal responsibilities between the Swiss Confederation and the cantons (*NFA- Neugestaltung des Finanzausgleichs*), the new legislation came into effect in 2008.

“The revised national fiscal transfer and equalization system, and the division of tasks between the Confederation and the cantons, came into effect in 2008. To the extent that the revision necessitated modifying laws and the Constitution, Switzerland’s method of direct democracy required that these be approved by both the majority of Swiss citizens and by a majority of the cantons. The modifications were subjected to popular referendum

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10) Linder, W., *op. cit.*, p. 14.

11) Bundesgesetz über den Finanz- und Lastenausgleich, Artikel 2, avaiable at: https://www.admin.ch/opc/de/classified-compilation/20012239/index.html, (accessed on 14 September 2020).

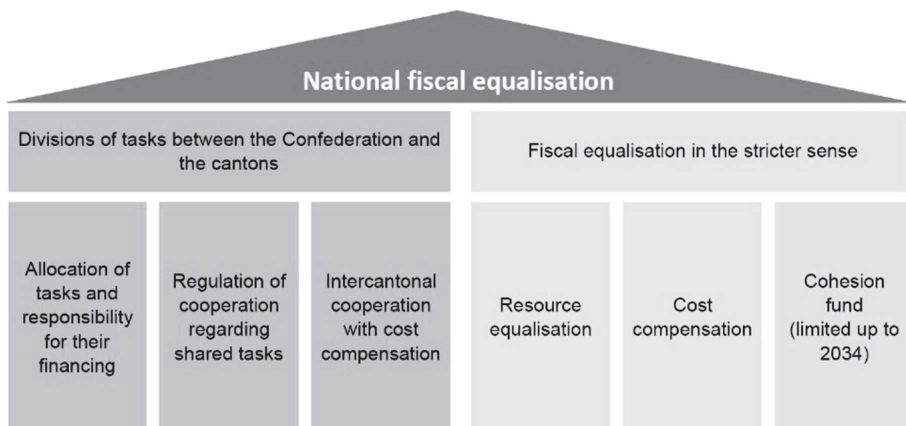
12) Frey, R., Wettstein G., *Reform of the Swiss Fiscal equalization System*, p. 22, in CESifo DICE Report 1/2008.

on November 28, 2004, and were approved by nearly 65% of the voters and 23 of the 26 cantons"[13].

This system is composed of two pillars. The first one is the division of tasks between the Confederation and the cantons. This part of the national fiscal equalization takes the form of allocation of tasks along with establishing responsibility for financing them, regulations for cooperation and intracantonal cooperation with cost compensation.

The second pillar is the so-called *stricto sensu* fiscal equalization and it includes: resource allocation, cost compensation and the cohesion fund. Approximately two-thirds of the financing is provided by the Confederation and one third by the cantons. Fiscal equalization is a mechanism working both vertically (redistribution from the Confederation to the cantons) and horizontally (redistribution among the cantons). Moreover, horizontal resource equalization should be at least two-thirds but not exceed four-fifths of vertical resource equalization. Therefore, the entire system looks as shown in the image below:

Figure 1: National fiscal equalization system



Source: Utz, P., Weber, W., *Fiscal Equalization in Switzerland*, Federal Department of Finance (FDF) and Federal Finance Administration (FFA), 2018, p. 2.

The new system has been improved and the wrong incentives have been eliminated. The new mechanism eliminates designated financial strengthening supplements replacing them with general cost compensation contributions. Therefore, cantons are free to use the financial resources they received to reduce debt, tax or simply to finance different tasks which fall under their duty.

[13] Soguel, N., *Intergovernmental Fiscal Transfers and Equalization*, in Ladner, A., Soguel, N., Emery, Y., Weerts, S., Nahrath, S. (eds), 2019, *Swiss Public Administration. Governance and Public Management*, Palgrave Macmillan, pp. 291-305, p. 292.

Rethinking the old system was necessary because it provided higher equalization payment for weak cantons with high tax burdens. This has led to the increase of tax burdens in certain cantons in order to gain more financial aid. Therefore, this aspect needed to be eliminated as criterion for funds allocation.

"Fiscal capacity was used to calibrate the equalizing supplement as well as federal revenue sharing with the cantons (notably 13% of the federal income and profit tax). Given the cantons' significant tax autonomy, it is not surprising that the cantons tried to manipulate their tax burden in order to maximize the grant they received from the central government"[14).

In order to counter these wrong incentives, the tax burden index has been eliminated as a criterion. The resource potential thus covers only the usable fiscal capacity of a canton without taking account of the effective tax burdens.

The new system uses the cantons' resource potential as basis for the resource equalization. Therefore, the taxable incomes and assets of individuals and the taxable profits of legal entities make up the resource potential. This resource potential calculated per capita represents the resource index. Cantons with a resource index of over 100 are considered to be financially strong and contribute to resource equalization. Cantons with a resource index below 100 points are financially weak and are thus recipient cantons. The purpose of this entire system is to ensure a resource index of 85 per capita per canton.

In order to further ease the transition from the old equalization system to the new one, a cohesion fund was introduced to help reduce the financial losses of financially weak cantons. The Confederation finances two thirds of this and it is allocated exclusively to the financially weak cantons. The cohesion fund has been declining by 5% p. a. since 2016[15).

The latest results show that between 2016 and 2019 the resource index of 85 per capita per canton was considerably exceeded in all cantons without harming tax competitiveness in terms of corporate and income taxes.

The Swiss method of solving resource disparities while allowing at the same time fiscal competition between cantons might be for others a policy to follow, if we take into account the fact that it could be more effective than tax homogenization[16).

Ensuring an efficient and robust financial management is no easy task. However, Switzerland, thanks to its fiscal equalization and debt brake mechanisms, appears to have less problems in this regard as other states.

The debt brake has been introduced in 2003 as a way to avoid structural imbalances in federal government finances while, at the same time, taking into account the economic cycle. It is designed to tackle two problems: stability of public finances and smoothing economic cycles. This mechanism imposes an anticyclical fiscal policy by allowing limited deficits in periods of downturn and by requesting surpluses during periods of economic boom.

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14) Soguel, N., *op. cit.*, p. 293.

15) See summary of the Federal Department of Finance regarding National Fiscal Equalization, avaiable at: https://www.efd.admin.ch/efd/en/home/themen/finanzpolitik/national-fiscal-equalization/fb-nationaler-finanzausgleich.html (accessed on 15 September 2020).

16) See Rühli, L., Rother, N., *Für die Revitalisierung des Schweizer Föderalismus*, Januar 2017 Avenir Suisse, Zürich avaiable at: https://cdn.avenir-suisse.ch/production/uploads/2017/01/NFA-2-Fuer-die-Revitalisierung-des-Schweizer-Foederalismus-1.pdf (accessed on 15 September 2020).

The debt brake is laid down in Article 126 of the Federal Constitution and the details are set out in Articles 13 to 18 of the Financial Budget Act (SR 611.0).

According to the Constitution, the Confederation has the obligation to maintain its income and expenditure in balance over time. There is a ceiling of total expenditure which is established considering the expected income and the economic situation (economic boom or recession). This ceiling may be exceeded only with the approval of the Federal Assembly and compensation for this additional expenditure must be made in subsequent years.

The rule is quite simple regarding the debt brake – expenditure may not exceed incomes over an economic cycle. Expenditure is directly proportional with incomes and its amount is determined after considering the capacity utilization. When above-average capacity utilization, the expenditure ceiling is lower than the income – therefor surplus must be generated. Contrarily, a deficit is accepted in times of low capacity utilization – expenditure may then exceed incomes.

Both Federal Council and Parliament are bound by the basic rule of the debt brake. Nevertheless, the Parliament enjoys budgetary sovereignty within the limits established by the debt brake. These limits can be exceeded in case of severe recessions or natural disasters through a qualified majority of both chambers of parliament.

When the budget and the subsequent supplementary credits are being prepared, the debt brake rules must be considered. After the closing accounts are available, the maximum permissible expenditure is recalculated based on the receipts achieved. If the actual expenditure exceeds the recalculated expenditure ceiling, the excess is charged to the so-called compensation account, on the other hand, any amounts below the expenditure ceiling are credited to the compensation account. The deficits registered in the compensation account have to be eliminated in subsequent years while the surpluses are used to reduce debt.

Even the extraordinary budget is subject to the debt brake. This translates as the following rule: deficits in the extraordinary budget have to be offset via the ordinary budget in the medium term. An amortization account records extraordinary receipts and expenditure. Over the course of the subsequent six accounting years, the surpluses in expenditure must be paid off by means of surpluses in the ordinary budget[17)].

"Despite its rocky start, the Swiss debt brake has a number of features which make it interesting for other countries. First, it sets an expenditure limit which applies to both budget and account. If the spending deviates from this limit, the difference is credited or debited to an adjustment account and must be corrected in one of the following years. Second, it applies in both boom and recession periods. This double-sidedness has clear advantages over one-sided mechanisms such as the Maastricht deficit criteria"[18)].

The importance of the debt brake does not resume to just lowering the debt level, it also involves the change of customs regarding fiscal policy, in the sense that till the debt brake the fiscal policy payed more attention to the demands and needs of the state rather to the available resources. Furthermore, it has been generally accepted that extended

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17) See Federal Finance Administration, available at:
https://www.efv.admin.ch/efv/en/home/themen/finanzpolitik_grundlagen/schuldenbremse.html

18) Bodmer, F., *The Swiss Debt Brake: How it Works and What Can Go Wrong,* in Swiss Journal of Economics and Statistics (SJES), Swiss Society of Economics and Statistics (SSES), vol. 142(III), 2006, pp. 307-330, p. 323.

public services require higher debt which leaves very little space for manoeuvre in fiscal policy[19)].

At the same time, implementing the debt brake was a very smart move for two reasons. First because it allowed focus on the deficit rather than on the debt and second because a balanced budget as target is a wiser option as surplus as target mainly because reaching the target of surplus would be accompanied by a higher desire to spend it rather to unburden future generations[20)].

Applying the debt brake has proved to have many positive effects for the Swiss fiscal policy such as a nominal debt reduction, increased ability to withstand crises and greater fiscal policy leeway. The latest research shows that Switzerland is implementing efficient instruments and comes up with rapid, intelligent solutions in the field of fiscal policy. All these actions have as results financial balance and a robust financial management.

"Swiss public finances are not under pressure from markets, quite the contrary as investors are willing to pay for the privilege to put their funds with the Swiss government even at long maturities[...] Given the low level of interest rate the Swiss government could afford a sizable budget deficit and still keep the debt steady as a low ratio to GDP. It could also use the substantial fiscal policy space to handle the economic costs of the Covid19 epidemic"[21)].

Even though imposing the debt break had proven to be beneficial for the Swiss fiscal policy, applying to both ordinary and extraordinary budgets, avoiding the limits imposed by it is still possible. Expenditures for issues which occur only once or for unforeseen events can be placed outside the budget through a decision of the Parliament. This aspect carries the risk of unjustifiably expanding the area of extraordinary spending. Such an attempt has been seen in the effort of parliamentarians to place traffic projects outside of the debt brake[22)].

On the other side of the story, Romania seems to be constantly struggling, constantly recalibrating inefficient mechanisms. Furthermore, fiscal requirements imposed by the European construction have brought to light the situation of an uninspired, pro-cyclical and insufficiently developed national fiscal policy.

The economic crisis has further strained the fiscal consolidation programs if we consider that in 2009 the Gross Domestic Product reduced by 6.6%. Moreover, the attempt

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19) See Schnell, F., Salvi, M., 2016, *Finanzpolitik im Härtetest Teil 1: Die Schuldenbremse erweitern statt ausbremsen*, Avenir Suisse, Zürich, available at: https://cdn.avenir-suisse.ch/production/uploads/2017/03/Finanzpolitik-im-Haertetest-Teil1_avenir-debatte.pdf (accessed on 17 September 2020).

20) Pfeil, C., F., Feld, L., P., *Does the Swiss Debt Brake Induce Sound Federal Finances? A Synthetic Control Analysis*, in Freiburger Diskussionspapierezur Ordnungsökonomik, No. 18/08, Albert-Ludwigs-Universität Freiburg, Institut für AllgemeineWirtschaftsforschung, Abteilung für Wirtschaftspolitik und Ordnungsökonomik, Freiburg, available at: https://www.econstor.eu/bitstream/10419/181011/1/1027801668.pdf , (accessed on 17 September 2020).

21) Tille, C., *The "burdon" of Swiss public debt: Lessons from research and options for the future*, Centre for Economic Policy Research, Policy Insight no. 101, 2020, available at: https://cepr.org/sites/default/files/policy_insights/PolicyInsight101.pdf (accessed on 17 September 2020).

22) See Bodmer, F., *op. cit.*

to bring the public deficit to 3% of GDP with the help of external financing program from the International Monetary Fund and the World Bank was not successful [23)].

This failed attempt only managed to bring to the spotlight unsustainable economic growth, based on massive imports and external degree of indebtedness of the private sector with suboptimal investments. Here we find the explanation for the explosion of the actual budget deficit when the economy fell in 2009.

Even though in 2010 the VAT rate was increased from 19% to 24% and a tax rate of 3% on gross income was reintroduced, which applied to small and medium enterprises, with the idea of generating extra revenue to the state budget, this measure proved completely inefficient.

Attempts at obtaining sustainability of public finances failed yet again with the implementation of Law no. 69/2010. The entire purpose of this rule was to ensure and maintain fiscal and budgetary discipline, transparency, and medium and long-term sustainability of public finances. Furthermore, it was supposed to establish a framework of principles and rules on the basis of which the Government should have ensured the implementation of fiscal-budgetary policies leading to a good financial management.

In an effort to recover national economy, Romania joined the European Fiscal Compact in 2012. The Fiscal Compact contains regulations that are not limited to fiscal rules and sanctions, but also include measures to coordinate economic policies. This new fiscal norm obliges the states to show budgetary rigor, imposing a structural budget deficit of 0.5%.

The Fiscal Pact brought with it both advantages and disadvantages for Romania. The advantages include strict fiscal discipline and the avoidance of pro-cyclical fiscal policies, and the disadvantages include the difficulty of economic recovery due to too small economic stabilizers and the impossibility of using discretionary fiscal policy[24)].

In 2013, the first budgetary rectification violated the provisions regarding the budgetary rectifications established by the Law no. 69/2010 on fiscal-budgetary responsibility, being the first derogation regarding the level of the budget deficit. The second budget rectification from 2013 marked a new violation of these provisions by exceeding the ceiling established by law for the budget deficit, aspects signalled by the Fiscal Council of Romania.

Even if there were measures designed to increase the efficiency of the tax administration, in 2014 there was limited compliance with tax legislation and an unstable fiscal policy, difficult to anticipate, with measures taken without a precise purpose that generated instability in the business environment.

Therefore, the Romanian Government failed to ensure the efficiency and effectiveness of actions necessary to transform Romania from an outdated, inefficient and wasteful state, in which the level of tax evasion is very high, into a more prudent state from a fiscal point of view, with optimized costs, waste as little as possible for each chapter of budget

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23) See Orosz, Á., *Romania*, in Vida, K., (ed.), *Strategic issues for the EU10 countries – main positions and implications for EU policy-making*, FEPS – Foundation for European Progressive Studies, Budapest, October 2012, pp. 191-119.

24) See Dumitru, I., *Compactul fiscal european. Implicații asupra României*, available at http://www.consiliulfiscal.ro/Impactcompactfiscal.pdf (accessed on 20 September 2020).

expenditures and with high quality social and public services at the lowest possible costs for its citizens[25].

"Despite the strong economic growth, the fiscal deficit further grew in 2017. Due to the strong tax cuts and spike in public wages and pensions, estimates in May 2017 saw the annual deficit rise to up to 4.7% of GDP. Only by adopting two supplementary budgets and by cutting down on public investment did the Tudose government eventually succeed in keeping the deficit slightly below 3% of GDP in 2017. Romanian fiscal policy in 2017 thus was not only procyclical; the deficit targets in the 2017 and 2018 budgets as well as certain provisions in the two supplementary budgets were not in line with the country's formal fiscal framework"[26].

Romania's efforts to ensure a sound financial management do not have efficient results, as it has been proven by the shutdown of the Revenue Administration Modernization Project (RAMP) in 2018. This had as result the impossibility to create an information system allowing The National Agency for Fiscal Administration (NAFA) to centralize financial data from all over the country.

The Revenue Administration Modernization Project for Romania was planning to increase the quality of the tax and social contributions collection process, to increase tax compliance and facilitate taxpayers' compliance. This project was supposed to modernize a management structure such as the National Agency for Fiscal Administration (NAFA's) in order to increase its operational effectiveness and efficiency.

Furthermore, RAMP made a priority out of modernizing core information Technology (IT) systems, out of the institutional interactions with taxpayers and contributors and out of modernizing taxpayer services through mechanisms for transparency and accountability[27].

In the context of the COVID-19 pandemic shock which caused a major and very rapid turnaround in economic activity, Romania has registered a deepening of the account deficit, which raises important challenges for the fiscal policy and, implicitly for a robust financial management[28].

3. Conclusions

The welfare of the state is a desideratum of any administration and governance mechanism, therefore the analysis of the aspects that ensure a stable, robust fiscal management is extremely important. Sound fiscal management, as an element of good governance principles, when carefully analysed, can become an indicator for both the state of the tax system and the state of the governance system.

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25) See Niță, N., *Euro Plus Pact and the need to combat tax evasion in Romania*, in Economy Transdisciplinarity Cognition, Vol. XIV, Issue 1/2011, p. 267-275.

26) Wagner, A., Stan, L., Bönker, F., *Romania Report – Sustainable Governance Indicators 2018*, p. 6.

27) World Bank, *Romania – RAMP (English).* Washington, D.C.: World Bank Group, available at: http://documents.worldbank.org/curated/en/151101585946707541/Romania-RAMP (accessed on 8 September 2020).

28) See Fiscal Council, *Annual Report for 2019*, available at: http://www.fiscalcouncil.ro/Annual%20report%20Fiscal%20Council%202019.pdf (accessed on 22 September 2020).

This article makes a comparative study between Switzerland and Romania in terms of the elements necessary for a solid and resilient fiscal management in the hope of identifying the tools and mechanism successfully used by the Swiss administration, which can be used in the case of Romania.

We consider that this comparison is even more important in the current context of the global challenges and threats brought by the COVID-19 epidemic, because it could present solutions for increasing the fiscal capacity and the resistance to economic shocks for Romania.

Regarding efficient, effective and robust financial management, the two issues which characterize the Swiss administration are the attempt to reduce the differences between the cantons as far as resources go without affecting the fiscal competitiveness and keeping the budget in balance.

These issues would be hard to apply in Romania since there is very little, to no cooperation between the counties. Therefore, maybe a first step in reducing resource disparities should start with increased cooperation.

Concerning keeping the budget in check by using a debt brake, this would require as element of soft law, changing the mindset in order to switch from procyclical to countercyclical fiscal policy.

Attempts to remedy the effects of procyclical fiscal policies by adopting legislation this on fiscal-budgetary responsibility, did not have the desired effects, fact highlighted by the repeated need for budgetary rectification.

Before being able to apply a debt brake, Romanian administration should be able to focus less on demands and needs of the state and more on the available resources. At the same time, it should set as target a balanced budget instead of surplus as target, in order to avoid the temptation of spending more.

Although Switzerland is an example to follow in terms of ensuring stable, efficient, robust fiscal management, finding the right mechanisms for it has not been an easy and straightforward process. Both fiscal equalization and the debt brake are tools that have needed changes, adjustments and recalibrations over time.

Fiscal equalization initially used the tax burden index as a criterion for granting financial consolidation supplements. In the context in which the cantons enjoyed autonomy in determining the degree of taxation, this criterion left the cantons free to take advantage of the situation and obtain higher supplements. Therefore, the tax equalization mechanism was recalibrated, excluding the tax burden index as a criterion.

The debt brake leaves options for parliamentarians to take a number of expenses outside of the ordinary budget, which could make it more difficult to implement the measures imposed by the debt brake and put pressure on the budget to cover these expenses in the next budgetary years. However, there were only sporadic and unsuccessful attempts to avoid the application of the rules.

Therefore, it is important to note the whole process through which a robust fiscal management was reached, taking into account not only the success obtained, but also the less efficient aspects. Thus, Switzerland could represent a case study for Romania also from the perspective of the obstacles encountered and the need to improve certain elements.

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