

THE ORIENTATION TOWARDS A EUROPEAN FISCAL UNION - ARGUMENTS FOR AND AGAINST

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Abstract:

In the proposed paper we will present arguments for and against a fiscal union at European level, amid intensified debates over its establishment. In order to identify the arguments, the context of the emergence of the fiscal integration process and its intensification will be presented, as well as the concepts of integration and fiscal union. The research methods used for the elaboration of the paper are empirical analysis and inductive reasoning, and the anticipated results can be benchmarks that can bring certain guidelines towards the support or not of a fiscal union at European level.

Keywords: *fiscal sovereignty, fiscal coordination, fiscal integration, fiscal union.*

Jel classification: *E62; F15; H77.*

Introduction

The philosophy of the European project, of creating and developing the single market through the four freedoms (goods, services, capitals and people), has constantly generated discussions and debates on its formalization, of situations not included in this institutional construction, of the progresses and deficiencies registered. / found. The acceleration of the creation of the single market, under pressure from Member States with influence in the decision-making process, to expand their markets, has put fiscal-budgetary issues in the background, which over time have proved to be extremely necessary, both the integration process into the European Union (EU) and the Economic and Monetary Union (EMU), as well as into the functioning of the single market.

Against this background, concerns and concrete actions have emerged to implement fiscal-budgetary regulations, formalized in official EU documents, assumed by Member States, progressively adjusted, in particular, after economic events such as financial and economic shocks / crises.

The sovereign debt crisis and the financial crisis have led to a more intense resumption of debates on the elements affecting the strengthening of EU and EMU policies. These mainly concern the need for deeper fiscal integration and its correlation with economic and monetary policy.

A first idea of the possibility of completing EMU with a form of fiscal union appeared in 1977, in the MacDougall report, which suggested the creation of a budget of about 5-7% of EMU's Gross Domestic Product (GDP) in a first stage, the ultimate goal being to create a tax federation in the EU in which federal public spending reaches a level of 20-25% of EU GDP (similar to the level of the US federal budget).

Much later, in the years 1992-1993, when the Maastricht Treaty was laid, laying the modern foundations of the EU and EMU, on the basis of meeting monetary and fiscal convergence criteria, no draft union was foreseen. Except for the fiscal criteria (budget balance and public debt limits) which have the role of ensuring a certain fiscal discipline, transposed into a preventive and corrective operational mechanism, through the Stability and Growth Pact (SGP), approved in 1997 and entered into force in 1999.

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In terms of debate and research on the course and future of the European and monetary union project, both supporters and critics of these projects have had common conclusions, in order to emphasize the major role of deeper fiscal integration in consolidating and expanding EMU, but at national level, there was strong political resistance to the partial surrender of fiscal sovereignty and, in particular, to the possibility of sharing budgetary resources, which also translated into the European Parliament where no political agreement could be reached.

Concerns about fiscal issues existed at the beginning of the European construction in a more discreet form, and since 2010, they have increased, especially during the elaboration and negotiations on certain European agreements / treaties, respectively during the negotiations on PSC, at the time of its reform and during the debates on the Stability, Coordination and Governance Treaty (TSCG), but also in these moments of the COVID-19 pandemic, when certain fiscal deficiencies are more obvious.

In this direction, in the period 2010-2013, a series of new measures were adopted aimed at smoothing and consolidating the fiscal integration process, measures that are practically the "embryo of the fiscal union" and consisted of: European Semester (2010); the so-called Six-Pack (2011) and the Two-Pack legislation (2013); European Stability Mechanism (ESM); European Financial Stability Facility (EFSF) and TSCG (2013). Also, the European Commission (EC), in its plan... Deeper and more authentic EMU since 2012, presented and supported the same direction, but later, in 2015, the Report of the five Presidents did not offer a definite vision in the same direction, but a more nuanced one on the deepening of fiscal integration and the perspective of a fiscal union, being proposed two stages: i) creation of a European fiscal council with consultative role to coordinate and complete the already existing fiscal councils at national level (achieved); ii), the establishment of a common macroeconomic stabilization function in order to deal more effectively with shocks that cannot be managed only at national level (function performed through the European Fund for Strategic Investments - EFSI).

From this brief foray into the history of the EU / EMU fiscal integration process, it was found that concerns for fiscal policy were not permanent, but rather occasional / conjectural, amid economic, financial or economic shocks, which shook the process of integration and consolidation of European construction, which sporadically appeared in the debate. Gradually, concerns and debates intensified, becoming a constant concern of European leaders in this field, but also of research economists, being, as previously presented, a series of measures implemented, creating new institutions and mechanisms, practically a new formal and institutional architecture in the process of fiscal-budgetary integration, having as main objective the construction of a fiscal union.

Against this background, concerns in this direction have become more and more frequently in topics and topics of debate at academic and political level, which have contributed to its evolution and improvement, from relatively simple rules to a monitoring process and coordination of the fiscal policies of the Member States, by implementing in national legislation, rules common to all Member States, in order to increase the similarity of the actions of the national fiscal policies.

The evolution of the fiscal-budgetary integration process is obvious, and at this moment a higher institutional stage of it is targeted, respectively the construction of a fiscal union at EU / EMU level.

About the concepts of integration and fiscal union

The term fiscal integration came into debate either after the manifestation of financial and economic shocks / crises, or in the critical assessment of a certain failure or important stages of the European project, as well as from the perspective of a possible fiscal union at EU / EMU level.

The design and implementation of rules specific to a process of fiscal integration presupposes the pre-existence of a union, respectively of a process of integration in a general sense, with a well-defined path.

The efficiency and effectiveness of the economic integration process are influenced by the existence and stage of implementation of the fiscal and monetary integration processes, being the main policies that stimulate inter-state economic and trade exchanges. Simultaneous implementation is desirable or with fiscal priority, followed by monetary, given the EU's experience

of focusing on monetary integration and the creation of the euro area (monetary union) and the lack of a similar process of fiscal integration.

We believe that fiscal integration is an evolving process of taking over, in part or in full, elements of the national fiscal-budgetary systems of the Member States at central level and creating a new common fiscal-budgetary system / framework, accepted and adopted by all Member States, so that by its implementation and observance, it allows the central authorities to monitor, coordinate and even intervene, within the limits of their competences, on the national fiscal-budgetary processes, following the stability of public finances and their medium and long term sustainability.

The new architecture of the fiscal-budgetary system / framework created at Union level can take over from the characteristics of the national fiscal systems or can formulate its own autonomous characteristics. The process of fiscal integration, developed on the new formal architecture created and adopted by Member States through agreements, transposition into national legislation and the establishment of specific institutions at central and national level, can be considered effective (functional and closed) when formal relations are established between the Community authorities and the Member States are respected for a long period of time, when the newly established institutions fulfil their role in coordinating and monitoring fiscal-budgetary processes at national level and when generating the projected results, both at the level of each Member State as well as at Community level. Such a situation, in our opinion, is equivalent to achieving a full fiscal union.

Regarding fiscal union, the economic literature does not provide a clear definition, but debates (Marzinotto et al., 2011; Dabrowski, 2014) have resulted in a number of practical meanings of fiscal union and various proposals for possible changes in the governance architecture of EU / EMU, in which a draft fiscal union may involve the following:

- ✓ a higher degree of centralization of fiscal-budgetary resources at EU level;
- ✓ developing European sources of revenue for the EU budget (replacing Member States' contributions);
- ✓ stronger harmonization of taxation within the EU / EMU;
- ✓ a fiscal discipline mechanism both at EU and national level;
- ✓ creation of insurance mechanisms against financial turmoil, including a mechanism for debt pooling at EU level;
- ✓ creation of institutions with fiscal authority at supranational level (creation of a Ministry of Finance at EU / EMU level).

These proposals can be constituted in structural elements of a fiscal union project, on the basis of which a general definition of the fiscal union can be drawn up. Thus, a general definition of a fiscal union can be expressed as the transfer of part of the resources, competences and fiscal-budgetary management (partial sharing of the management of national fiscal-budgetary policies) from the national level to the community level.

Authors such as Fuest and Peichl (2012) distinguish five possible elements of a fiscal union:

- ✓ fiscal rules, coordination and supervision of fiscal-budgetary policies in correlation with short and medium term economic policies;
- ✓ a mechanism for preventing and mitigating shocks in the nature of economic, financial and / or health crises (e.g. the current pandemic caused by SARS - CoV-2);
- ✓ common guarantee for public debt;
- ✓ tax equalization and other mechanisms for tax transfers between countries and from the EU level to the Member States (and vice versa) through an automatic or semi-automatic mechanism;
- ✓ a larger EU budget and European taxes.

The vision of the European authorities, expressed through the EC Deepening and Authentic EMU Plan (2012) and the Report of the Five Presidents (Juncker et al. 2015), on the prospect of a fiscal union, is that of developing a fiscal capacity, autonomous for EMU, with the need for stronger

economic policy coordination, and the creation / strengthening of the fiscal stabilization function within / through the EU budget. This refers to the extent to which a national or Community authority can increase revenue from its own resources.

Measuring fiscal capacity is important from several points of view, namely:

- ✓ to address interregional disparities and implement an equalization program through fiscal transfers;
- ✓ to guide central authorities in their efforts to achieve an interregional distribution of available resources for each of the Member States / regions, depending on development needs;
- ✓ to provide information on the strengths and weaknesses of national governments by: monitoring and comparing trends and their fiscal and economic situations and forecasting the impact of structural changes in national and regional economies.

The development of fiscal capacity, in the view of the European authorities, according to the previously mentioned sources, must comply with the following guidelines: not to lead to permanent transfers between countries; not to penalize / undermine the proper elaboration and management of national fiscal policies; be implemented / developed through the EU budget and not be a crisis management tool.

We find that the term fiscal union has different meanings and interpretations, from a set of common fiscal rules (current state), to the creation of a fiscal system with federal characteristics (sharing and partial control of national fiscal-budgetary resources).

Arguments in favour of the creation of a fiscal union at EU level

A first set of arguments in favour of a fiscal union at EU level (which would involve the sharing and control of part of the national fiscal-budgetary resources and, implicitly, an instrument for their management, respectively a budget) results from the implementation of the budget (which allows surpluses and deficits, depending on the economic cycle of the Eurozone and implicitly the ability to borrow from bond markets and repayment on the basis of a common tax), respectively streamline the functions of taxation by: financing those public goods that are common to all regions (education, research, infrastructure, defence, health); transfers will be made between regions to correct geographical / historical / natural disadvantages in order to maintain economic and social cohesion; macroeconomic stabilization will be ensured, i.e. smoothing of business cycle fluctuations at regional and national level, national / local budgets being generally constrained by national rules and interests and failing to properly adjust fiscal-budgetary policies to business cycle fluctuations.

A second set of arguments refers to the possibility of streamlining and completing the steps taken so far in the process of fiscal integration (the process of creating the fiscal union). These stages, according to the opinions expressed above, which we support and complete with the process of fiscal harmonization, are: the process of fiscal harmonization; the process of fiscal coordination through fiscal-budgetary rules; a crisis management mechanism and the banking union.

The creation of the fiscal union and the implementation of a common budget, implicitly, the establishment of tax bases and common taxes, as sources of its financing, would facilitate the completion of the fiscal harmonization process, so difficult, especially in the field of direct taxation, which would mitigate and make tax competition fairer, and the mobility of tax bases will be tempered, facilitating the mitigation of large cyclical fluctuations at the level of component entities. As regards fiscal coordination and fiscal rules, they will be "absorbed" by the newly established institutions within the fiscal union, respectively by a Ministry of Finance, possibly also a Parliament approving the common budget. As regards the crisis management mechanism, this will be the main function of the common budget, taking over and streamlining the intervention mechanism now carried out through the ESM, while, the banking union will be supported in reducing market fragmentation by harmonizing the rules of the fiscal-budgetary sector, thus contributing to strengthening financial stability in the EU as a whole.

A third set of arguments concerns economic, political and administrative issues. From an economic point of view, the EU is in a certain decline, confirmed by the fact that in the early 1990s, EU states accounted for half of the top 10 most developed countries in the world, and a perspective of this statistic in 2050, indicates only two states in this top. In this global economic context, characterized by some aggression and unfair competition, a strong, united economic union can stop this decline, and the creation of a fiscal union at EU level would increase the credibility of the European market. From a political point of view, the fiscal union can be an important and real step for the political union as well, and the centralization of financial resources and debts, even partial, will be important landmarks and strong symbols for the political and democratic consolidation of the EU. From an administrative point of view, a monetary union will have great difficulty managing macroeconomic imbalances, without the help of a fiscal union, with a federal structure, which would involve supervising and controlling the collection of revenues and expenditures incurred. Without a strengthened fiscal union, the vulnerability to asymmetric shocks will be increased, thus the attempt to combine a supranational monetary policy with local fiscal policies is not successful.

Arguments against the creation of a tax union in the EU

A first set of arguments against the creation of a tax union in the EU concerns cultural and social issues. The independence of the component states, the electoral processes that incorporate specific local and national problems, needs local solutions. Monetary union is not an attractive example of effectiveness and prosperity, which amplifies certain resilience, superimposed on the cultural elements of national sovereignty. The transfer of some essential national attributes of national institutions, to a single decision-making institution for 27 states seems to be undemocratic and, above all, difficult to achieve, in that it tends to separate the notion of contributivity from that of representativeness and, more elected, decisional.

Another set of arguments against the creation of a tax union in the EU concerns issues of fiscal pressure. More specifically, the creation of a fiscal union implies the completion of the process of fiscal harmonization, both in terms of common rates and common fiscal bases, as elements of equity and contribution to the common budget. For developing Member States, which generally have tax systems with low rates of income taxation, harmonization will increase them, which is likely to have other effects on the labour market, on the migration side and capitals. On the other hand, for developed countries, which generally have tax systems characterized by high rates of income taxation, adaptability will be easier, making it possible to relax them.

Another possible unfavourable argument of the creation of a fiscal union is that of moral hazard, of the irresponsibility that the fiscal union can entail, in the sense that there are consolidated and balanced states from the fiscal-budgetary point of view, which will unify with unbalanced state from the same point of view, with the possibility of penalizing sound budgets, and states with weak budgets, becoming aware that they have a safety net, will slow down reforms, thus risking the transformation of the fiscal union into a transfer union.

Conclusions

The process of fiscal integration represented by the partial or total takeover of some elements of the national fiscal-budgetary systems of the Member States at central level and the creation of a new common fiscal-budgetary system / framework, accepted and appropriated by them, so that by implementing and respecting it, to allow central authorities to monitor, coordinate and even intervene, within their competences, on national fiscal-budgetary processes, with a view to the stability of public finances and their medium and long-term sustainability, is being implemented and has made progress in particular, on the formal side.

The concept of fiscal union is non-standard, and can exist in at least two forms: one through the prerogatives of coordinating fiscal policies from the center at national level and another that additionally involves the sharing of financial resources and, implicitly, the existence of a financial instrument - budget - and of some central institutions. At the moment, at EU level, there is the first

form of fiscal union, based on the coordination and monitoring of fiscal-budgetary policies, having as common basis a set of fiscal-budgetary regulations assumed by each Member State, by assimilation in national legislation, taking place a partial cession of fiscal sovereignty in favour of the EU, which gives a certain degree of similarity to fiscal policy actions and guidelines at national level.

A general conclusion is that favourable arguments are predominantly economic in nature and are dominant, numerically, but also in terms of anticipated benefits, over unfavourable ones, which are predominantly administrative, cultural and political. Although they are in the minority, the unfavourable arguments are the ones that pave the way for the consolidation of a fiscal union in the EU (political agreement and administrative mechanisms for taxation, collection and shared use of resources).

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