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The Fiscal Dimension of the Economic Integration

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Abstract
Previously to the "Euro currency's birth" there was even more than a debate about; there was a real fight of ideas between pro- and against the new currency and its "renewed" Union around. Then, there came the moment around the year 2000 (i.e. the Euro currency in 1999, then the effective Euro in 2002) when the pro-Euro and pro-Union won the match – e.g. the "Happy new Euro!" and its fire-works feast – this Programme came to be successful, as previously drawn. The EU was done, as resulted from the Maästricht Treaty (1992); so was the Euro and its Euro-Area/Euro-Zone/Euro-land. This was equally a new step taken into the integration process, as previously indicated by the "old" theory of economic integration. However, on the one hand this was not more than the euphoric end of an old period, on the other just the start of a new one that was going to be quite different and not entirely predictable. So, 2004-2005 was coming to be the moment of the French, Danish and Dutch voters' rejection of the EU Constitution project on the very ground, 2008-2009 was the one of Lehman Brothers' economic crisis, as international, and 2020-2021 the one called "Brexit" – the UK leaving the EU. Along this same period (2000-2023) context, first, singular voices came up in the literature for a presumable "fiscal union to accompany the monetary one", but then such an idea, although not exactly disappeared, stays quite far from the current EU activities and projects. And from the literature, as well.

Keywords: *monetary policy; central banks; fiscal policy; modern monetary theory; economic integration & theory about.*
JEL Classification : *E02 ; E52 ; E58 ; E62 ; F15*

This paper below, belongs to the *synthesis* category of papers and actually is about a theme that the literature proved not quite generous with so far. This is the presumable perspective of the *fiscal union* in the EU States' Organization. Vaknin (2000) - who is not even an economist, but an Israeli psychologist and blogger- looks to have been the one revealing some previous experiences of the monetary unions' side and concluding like: *"...No monetary union lasting without a fiscal union backing"*. Or the plot of our below story is rather that,

unlike the precedent such unions around in Europe or elsewhere, this EU one is the single and even unprecedented one with several countries sharing a common currency – i.e. it will be about such coupled unions all the more in this case.

1. THE FISCAL UNION, AS APPARENTLY

All people, here including those in Europe and in the EU member countries, are supposed to work, the common way of earning life, and pay taxes – it is the same that they will/would be supposed to do in the *fiscal union* circumstances. They pay taxes to: Paris, Berlin, Madrid, Athens, Bucharest and so on. The difference that is supposed to make the fiscal union status is that these taxes paid will belong to the *local category* of taxes – i.e. the other part of taxes, the *central* ones --, will be paid to Brussels – i.e. and these will be not the Brussels-Belgium, but Brussels-the capital of the EU States formation. The taxation responsibilities will shift between EU member States' authorities to the ones of individual citizens and companies, as legal entities. On the contrary, in the current state of the EU taxation is like described in Diagram 1.

Diagram 1. Taxation in the EU: a synthesis

(1) Taxation belongs to the member States and there is no "European fiscality", except for some terms and rules imposed by the Union to its member-States (see below);
(2) As consequently, the EU budget is an additional one to the member-States' individual budgets, as for a 1.2% weight in the cumulated Gross National Incomes of member States* and being formed by direct contributions of the same member-States;
(3) The EU's main policies -- as for a Keynesian view: the fiscal-budgetary and monetary ones, respectively –, are working in a complex picture. Only the monetary policy is central, whereas the fiscal policy stays on the member States side and the budgetary policy shares between member States and the EC.
(4) A context in which the relationship between the two policy categories is ruled mainly by the Convergence Criteria of the Maastricht Treaty and the Pact of Stability and Growth.
(5) A context in which, concomitantly, the EC governing position sees itself weakened enough.

*Here considering the EU-28 long-term budget of €1,082.5 billion for the period 2014–2020, according to European Union: Integrated Financial Reporting Package Overview, Financial year 2017. 2018,

Source: European Comission, 2020

Another aspect to be here noticed is that such a description calls another taxes' classification criterion – i.e. they refer to *direct* taxation, the one that is directly current income related (i.e. of citizens) and/or current revenue related (i.e. of legal entities). The other part of the taxation table belongs to the *indirect* taxes – i.e. those related to other than the current incomes-revenues and, of course, the fiscal union will be about these either. The well-known *value added tax* belongs here, in its turn (it will develop on in the below 6. paragraph).

2. THE TAXATION-BUDGET RELATIONSHIP AND THE CURRENT EU'S BUDGET

Diagram 1 equally regards the other connection of taxation, the one with the afferent administrative *budget* – i.e. the one related to (3) and the following points inside the Diagram. And now it is the moment of equally considering – i.e. besides the fiscal union landscape – the current EU situation, in parallel.

Or, in the EU administrative area the specific taxation does not exist, despite that the EU budget does. And this budget, besides not directly dealing with taxation, has at least three significant characteristics to be here discussed.

A)The EU budget deals directly with the Member State's authorities – i.e. instead of dealing with individual citizens and companies, once more – that stay directly responsible in context. Plus, these authorities' responsibility extends for their own national budget up to both keeping limited deficit and related to the EU/EC's budget provisions – i.e. actually, in the EU specific language this means that the Organization's (EC's) central budget is an *additional* one to those of Member States.

B) See Diagram 1 again at point (2) for the Member States' contribution to the EU budget as high/low as 1.2% of cumulated member States' Gross National Incomes (GNI). This is usually the result of negotiations between that EU member State and the *EC,* this last in a proper *EU Government* position. Or, the idea is that a very low budget in the Commission's hands says enough about this EU-Government's real significance in question. The EC might be able to manage the Organization's inventory of financing funds aimed to fight specific situations that she couldn't admit, by status, under the threaten of dissolution – i.e. persisting differences in welfare and development between regions that are supposed to be member countries' territories –, despite that individual States could, in similar position and in the same market economy conditions. But what is even more obvious here is what the EC – i.e. the formal EU Government – wouldn't be able to do, as it is: supporting the euro currency or, at least, participating in such a mission. And this is while all ordinary governments currently do. Even more precisely, the EC has nothing to do with the common currency by job description. In context, part of such a responsibility remains on the Euro Member States' side, as will be deepened below.

C) Thirdly, there comes the aspect directly confirming/verifying this: the current *EU budget* is banned for any deficit and surplus alternative – i.e., this is for no resulting pressure on the euro currency's value-price. Actually, the EU budget must remain within the limits set out in the Multi-annual Financial Framework (MFF) and the Own Resource Ceiling(usually seven years). The MFF is the EU's long-term budget to be established for at least five years (European Union,2016).

D) Finally, the fiscal union perspective/ alternative for the EU could solve these current problems of its budget by here remaking the ordinary State's administrative structure. However, the more the *budget of the fiscal union* will do, as compared to the present day one, the more it will stay active and never ignore, neglect, or just relax on the current Organization's preoccupation for fighting development and welfare intra-area disparities.

3. THE BUDGETARY-MONETARY POLICIES' RELATIONSHIP. THE STATES' HISTORICAL EXPERIENCE

The State is supposed to miss all proper interests against its citizens (James Madison,1787) - but this is more than an aspiration; this is reality. The presumable State's interest comes up *vis-à-vis* the same State's equals, i.e. other States. Not even the examples of corrupted States and dictatorships contradict this assertion -- i.e. the State serves the others' interests anyway, here including those in its power and the dictator's freedom in acting (Andrei 2019, pp. 351-355).

Or, such an assertion might be extended at least on two floor levels: (i) for the same State that makes economy and/or becomes an *economic entity* and acts as such; (ii) and so, for companies joining the citizens' position vis-à-vis the State. In other words, the State might be assumed to do in its economy making the same as in all its other statutory positions. And this is exactly what makes the State act economically differently than individuals and firms – i.e. the other economic entities in the same area. This activity moves between collecting revenue – i.e. through taxation -- previously to spending for its specific working, and usually rejecting profits and budget surplus, as non-specific to its acting.

And it is so that *taxation* – i.e. the *fiscal* function – comes back to the State's priorities. It is concomitant with the budget foundation, while money might here come later on or even not – i.e. *taxation* is a topic that appears unique by not too much changing its principles and acting since the antique era, when currencies issued by States might even be missing, e.g. in the ancient Egypt. The old "*Principles of Taxation*" of Adam Smith (1776), in his first treaty of economics ever, are still found applicable. When and where currencies were born and issued, in the antique era – e.g. in the Persian Empire, the Greek City-States, the Roman Empire – this was as the basic accounting facility for the State's both revenues and spending. Even much later on, in the modern and contemporary eras – e.g. in which money and credit have become inseparable, despite their also initial separation in the antique era – taxation stays prior to the money proper State's management.

In exchange, the contemporary era – i.e. more exactly, immediately after World War two – brings in a new money management formula: the *central bank*, versus commercial banks, as for the *banking system,* nearly all over the world (Pattat,1991), here including in a certain measure the communist part of the

world at that time. A non-liberal(i.e. no private capital for the central bank anywhere/ibidem), but efficiency proved maneuver -- i.e. management and political decision made -- assigns the central bank for the *monetary policy* and so for working about on equal foot with the Government – i.e. the monetary policy also becoming the lonely national level policy that the same Government conveys to somebody else, who isn't a subordinate agency or something; and this despite also unprecedented difficulties implied by this to both institutions. Then, this is exactly the context in which the new *euro* currency was coming to be born in 1999 – i.e. be it as an unprecedented currency common to several States in a new Organization and paradigm.

4. THE EU INTEGRATION PROCESS WITH NO CENTRAL BUDGETARY- MONETARY POLICIES' RELATIONSHIP JUST YET

Or, the problem for the EU isn't exactly the fact that the *euro currency* was born under the auspices of the *European Central Bank (ECB)* -- all the less for the common currency new option, instead of its precedent EMS kept in force -- but just that it is the ECB's Government counterpart here missing, unless through contradicting the "old" Organization's status entitling the European Commission (EC) as such. The European Monetary System (EMS/1979-1999) is seen too similar to the Bretton Woods international monetary system (IMS) structure for being suitable to the EU by McKinnon (1992).

Here recall from above (2.) the competence limits of the European Commission (EC) which prevent it from being the ECB's collaborator in the matter of the euro currency. The reality is both that the EC is missing from the "*euro-mission*" – i.e. together with its EU budget -- and that the European Central Bank (ECB) here finds somebody else to deal with in such a respect.

But such anomaly apparently results directly from the basic *theory of integration* (Balassa 1962), unless for a monetary union supposed to stay in the European Monetary System (EMS/1979-1999) stage. We dare to call it *¨Balassa-5¨, as the five-stage foreseeing model* for a full integration process, as imagined as: [1]free-trade area, [2]customs union, [3]common market, [4] economic union, [5]economic & monetary union. Apart from referring to previous works in economics that belong to JE Meade, Jacob Viner and even to Alfred Marshall, the author does here analyse what he here calls *¨projects of integration¨* at least in Europe (the Economic Community, that was the name of the today European Union at that time, and European Free Trade Area) and in Latin America (the Central American Common Market and the Free Trade Area of the South America), but only the EU perceive without interruption these written lines as a kind of *¨programmatic document¨* -- e.g. CVCE, European NAvigator (2016) ; European Parliament(1986) and Treaty of Maastricht (1992). Plus, to be here mentioned that national currencies in place, as a money

plurality for the EMS, would apparently not need the central bank, as specific to just one currency to be managed.

And two aspects came to be unanimously considered so far: (i) just the Euro-zone, as the ¨economic and monetary union¨ of Balassa (1962); (ii) despite its model accomplished, *¨Balassa-5¨* did not bring the real/full integration – i.e. not even in the limited Euro-Zone -- in and the fiscal union does not fit into this model, either. Then, in its new *updated/adapted* form (Andrei 2014) that the theory of integration meets the difference between "*man pushing events*" – for the *incipient* integration of free trade area and customs union – and the opposite "*events pushing…*" – for the *advanced* integration of the common-unique market, economic and monetary unions, here including the euro-common currency and clearing the way for further presumable integration exigencies – and this seems to be essential for reconsidering the fiscal union condition, as also presumable – i.e. actually, for correcting the work anomaly shown here, above.

Andrei (2014) is for free trade area, customs union and common market reconsidered; just two stages – i.e. incipient & advanced integration –, instead of the previously considered five, then criticized in the literature(Tsoukalis,2000) and convergence and optimum currency area (Mundell, 1961; 1973),as coordinates for the last/ advanced integration great stage. Arguments in favour of this renewed form (except for criticism collected on the *"Balassa-5"* side): (I) just the EU on both the *incipient* and *advanced* integration stages done; the other State formations just for the incipient integration done (II) in the incipient integration circumstances there might be easy for new member States added and conversely, corresponding ruptures. As compared to such multiple structural changes of integration in Central America, but even in Europe(in the European Free Trade Area case), following the requirements of national interests, "Brexit", the leaving of the EU by Great Britain, was a kind of "painful amputation" for both sides; (III) directly on the ground, the criterion of distinction between incipient and advanced integration parts/stages is the one making "man pushing events" for the previous and "events pushing…" for the latter.

For the full picture of the current EU, in its budgetary-monetary policies' junction dimension, the *maximum 3% of GDP budget deficit for a presumably stable (euro) currency* requirement looks to be accomplished/ensured at present since considering the whole / large EU's budget as formed by the EC's central one and the member States' ones together – i.e. here considering the Euro-Zone member States and candidate States. However, this is just theory, as vis-à-vis the permanence of such a requirement in concrete year-by-year economic conditions (e.g. the recent 2008-2009 crisis, when hearing not the specific EU's voices, but the ones of German and French officials, like before the War) and

correspondingly weak rule of the "Pact of Stability and Growth" facing the Euro-Zone member States.

5. THE EU: PRESENT AND PERSPECTIVES OF THE EURO COMMON CURRENCY

The true problem actually comes even before this above "equation" ensured – i.e. it is about the question asked: "*to whom does the euro-common currency belong?"* with its alternative answer that is, of course, the EU, versus the member States of the Euro-Zone. Or the previous EU alternative is entirely the one of the EC, as discussed above.

Instead, the alternative of the Euro-Zone *member States owning the Euro-currency* is a really interesting one. On the one hand, the ECB currently works with these States for the Euro-currency management, but in too difficult work and rule specific circumstances to be expected to go on. On the other, when here imagining such a problem solved – e.g. by an imaginary professional prolongation of the European Council's acting into the monetary topic and management activity -- a new and even deeper problem will here arise: how about the Union, with its spirit and unity of decision built and in its given advanced integration stage, while it is still the member States who decide instead? And these States even belong to just a part of the Union area. Unfortunately, no theory of integration for this new issue, either.

Or just here remember the Euro's birth in the 1999-2002 interval – it was so smooth, happy and honourable for those who proven able to make it – i.e. here including for the previous end of the EMS that was by far not similar to the ones of its previous IMS of Gold Standard (1931-33) and Bretton-Woods international agreement (1971). It is true that the Euro's survival now, two decades after that happy event, sounds different. But equally do not omit that the same euro's making has taken a little longer than that moment around the year 2000 – i.e. during the period since 1971 with actions and measures taken by the European Community further on, all of these also proving the Organization's ability to conduct such a long-term project.

Shortly, the perspectives of the Euro currency here in debate are just two. The one is its ceasing existence – i.e. with harsh consequences for the integration process managed so far and step back into at least before the year 2000 time. The other might be clearing the way for the presumable *fiscal union* – i.e. here also in debate and with other complex consequences to be developed in the next and final 6. – and continuing from what the theory of accounting calls the *break-even point* and that the EU already over-passed in its integration project. We here refer to the historical moment of distinguishing between what were called above the incipient and the advanced integration stages – and in our view that might have been the moment of deciding on the EMS founding (1979). Note

from above also that the EU is the single/unique integration project so far preferring the full variant of economic integration viewed by Balassa (1962).

6. CONCLUSIONS FOR THE EU: SOME MODERATE OPTIMISM.THE FISCAL UNION APPROACH IS POSSIBLE, AND IT MIGHT BE ALREADY STARTED

Continuing from above, the *fiscal union comes in favour of the economic and monetary union* – i.e. in favour of the economic integration process in its advanced stage – and implicitly in favour of the *Euro,* as both currency and previous long-term enterprise. The Vaknin (2000)'s assertion appears as justified, in context, while the Krugman (1993)'s reference looks symbolic for this topic's unpopularity even in just theoretical terms. Diagram 2 lists some factual and mental factors opposed to the fiscal union alternative future – i.e. actually, this paper of ours isn't for inventorying or examining the pro- and/or anti-fiscal union positions in the EU. Plus, not at all interested in the political thinking we prefer to appreciate, for the theorists opposed to fiscal union (not for politicians), a certain reservation to the idea that the federal State might be the restricted future, unique and this-way mandatory alternative for the EU Organization.

Diagram 2. A brief inventory of factual and mental obstacles to the presumable EU Fiscal Union

(1) the adverse effects of the EU extension. (2) the same for a presumable *federalization* – meaning centralism strengthened and separatism fuelled, here included anti-European policies run by member States and political movements developed around. (3) the same for a presumable *"communitarisation"* of the member States' accumulated debts – i.e. EU, as a "union of debts" (Duff, A.,2021) (4) influent politicians inside their own nations fearing their presumable "provincial" (new) status and afferent frustrations. (5) the gap viewed between the "center" and "periphery" of the Union, as for different levels of welfare. (6) beyond "Brexit" (UK and so much reticence in Denmark, Sweden, and, more recently, even in France and Ireland, against the EU extension initiative), any further (real and/or imaginable) "leaving the Union" event, as the beginning of a large and destructive rupture; (7) keeping in mind the McKinnon (1992)'s theory of: *the nominal anchor in bankruptcy* — the Euro keeps its *larger area* around the so called "*Euro Area*" or "*Euroland*".

Source: (Duff, A., 2021)

So, staying on the theory of integration's side and in consistency with our(above) text so far, let us have at least two points optimistically related to the fiscal union alternative of future. First, *fiscal union* appears feasible in the EU now, in the 21st Century, the same as the *monetary union* during the last half of the previous 20th Century, here including as multi-decade

implementing/development. The Union proved experienced already in this kind of projects managed.

Second, see the example of European Union's common system of value added tax -VAT- (EU-Council Directive 2006/112/EC) with its subsequent additions and correction up to the current post-pandemic time. This Act is aimed to adjust the current VAT legislation in the EU-multi-country area, naturally, in the sense of fighting the harmful phenomenon called "fiscal competition" (among member States) in the unique/common market. As in its primary details this Directive provides a 5-15% application of VAT rates to a list of goods-products traded. Or let us here see a correspondence of this rule, in its current time, with those "Smithsonian" and "Basel" Agreements in 1971-72, as the primary steps taken by the "Monetary Snake/in the Tunnel" for the monetary union which was gone effective three decades later (European Parliament, 2015) - i.e. despite the so important differences between these events.

This double exemplification – i.e. from the monetary and fiscal unions (to be) implemented – might be able to complete the above general comparison between these real and possible EU projects, at least in the sense that the above EC's Directive on VAT might stay debatable for being, or not part of a really existent/ future fiscal union in the EU. So were the "Smithsonian" & "Basel" Agreements, at their time, for the later monetary union in place.

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