RESEARCH ARTICLE:

The fiscal development of the European Union

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ABSTRACT

The European Union is an emerging supranational structure of governance that aims to become a federation. The goals and objectives of this new player on the international stage are becoming more and more complex.

Under this context, the fiscal stability of this structure is very important, as it ensures the actual functioning of the European Union.

The new concept of fiscal development, which implies the convergence of the convergence of the national fiscal systems and the fiscal consolidation, deserves a higher attention, as it is the very basis of the balance of the European construction.

KEYWORDS: *European Union, fiscal development, fiscal consolidation, convergence.*

1.Introduction

The intricate European structure aims at providing financial support and a balance between different this is the reason why it is important to distribute the available funds in an effective way, taking in consideration, at the same time, that some objectives of public policies are better promoted at a larger scale and others at a national level.

The European construction must promote the values without violating the principle of diversity in a global context increasingly complex, which requires an increased emphasis placed on innovation and technology.

European policies are always structured to secure objectives such as growth and employment, but also new trends such as freedom, security and justice for Europe's citizens enjoy the same degree of importance. These latter objectives are developed by encouraging the development of the concept of European citizenship, youth exchanges, the birth of a European dimension to media and culture.

These objectives cannot be obtained if there is a significant lack of balance between costs and revenues, if there is no sustainable economic development.

Another important aspect which represents a major point of interest for European Union policies is the emerging concept of sustainable development. The best known definition of sustainable development is the World Commission on Environment and Development (WCEF) report “Our Common Future”, also known as the “Brundtland Report”: “Sustainable development is development that follows needs of the present without compromising the ability of future generations to meet their own needs”. EU structural funds are always available to Member States to facilitate compliance and improving governance in the direction of sustainable development.

In the last decade, the EU has accelerated the rate of change, developing a political agenda focused on the future development of the EU for the next decade and beyond. Drafting new policy, determining challenges that could have a significant impact on where the Union directs its efforts in the future, must take into account the process of sustainable development, which has played an important role in decisions taken at EU level.

The knowledge, the know-how, competition and innovation have remained simple goals of the European Union but turned into European policy objectives, targets whose touch is continually monitored.

Increasing employment of labour is also a major objective of the European Union. This objective requires on the one hand increase the number of jobs through active and effective measures to combat unemployment, improving access to information systems, education and training, accelerate the mutual recognition of diplomas, certificates and professional qualifications and secondly by improving social security, promotion of equality, reduce the degree of social exclusion.

All these European policy objectives converge to the main purpose of the European Union, providing a functional common market. This objective is very important in the context of the EU because through it “have established new relationships between public and private actors at EU level and between actors operating at national and European levels”[1].

A functional common market involves real economic and undistorted competition through measures related to market structures and the behaviour of its actors, in order to foster innovation, reduce production costs, increase efficiency and,

[1] Wallace, H. Wallace, W., Pollack, M. 2005. *Elaborarea politicilor în Uniunea Europeană*, Ediția a V-a, Oxford University Press, p.106.

consequently, increase the competitiveness of the European economy, accelerated adjustments according to changes in industry structure, encouraging an environment favourable for the initiation and development of enterprises, in particular small and medium enterprises, to encourage cooperation between firms, better exploitation of the potential of the industry innovation, research and technological development .

All these objectives ensure the convergence territorial, economic and social development of the star members of the European Union. Treaty of Lisbon explicitly recognizes territorial cohesion, a fundamental objective of the Union in addition to economic and social cohesion.

But how can the European Union ensure all of the above if there is a very big gap between the costs and the revenue of the European Union?

The lack of fiscal development would most definitely put at risk the objectives of the European Union, as a sustainable economy, even a supranational one, cannot function cannot function in the absence of fiscal discipline, a cooperation between the fiscal actors and a set of rules that ensure the convergence of multiple and different fiscal systems.

We believe that fiscal development should be understood as a process of convergence of tax systems of the Member States and the European Union fiscal consolidation to facilitate the economic development of the European Union.

2.The connection between the economic development and the fiscal development

In the context of the emergence and evolution of the concept of EU *economic development*, involves issues that go beyond the border pure economy, focusing on the elimination of disparities between different regions, diversification and improvement of the services offered by the state, increasing the living standards of citizens, it appears not only justified, but also useful to decipher the concept of *fiscal development*.

The concept of economic development has become a major point of interest in recent decades due to the need to explain that mere economic growth is not sufficient for the developed national economies and for the ones developing.

"Economic development requires a harmonization of economic development activities at the local level, in particular by reducing disparities between different regions, taking into account, while local peculiarities. A very important feature of economic development is linked to other issues than economic ones, especially the social aspect. Thus, economic development requires improving the education system, improving the health system, improving the legal system, the development and implementation of effective programs to combat poverty, etc. . . ."[2]

Fiscal policy has a significant impact on the directions of development of the economy of any country through various measures such as taxation, public spending and public borrowing. Therefore, implementation of effective fiscal measures and adjusted the tax measure determines the sources of revenue, allocation and distribution of resources, economic development.

Fiscal development is considered to be an integrated part not only of the concept of economic development, but also of the sustainable economy. Better fiscal management, a high degree of fiscal capacity and fiscal consolidation effectively mobilize savings and provide an optimal allocation of resources to achieve development goals.

Therefore, the economic development of the European Union should have as main component and instrument the fiscal

[2]Imbrescu, I. 2010. *Macroeconomice – note de curs*, p. 5 , available at www.uvt.ro

development. The high degree of fiscal consolidation at the European level is the base of a low rate of public debt, which is the key of the economic development.

3. Fiscal consolidation of the EU

One very important component of the concept of fiscal development is the fiscal consolidation.

Fiscal consolidation is a term that is used to describe the creation of strategies in order to minimize deficits simultaneously with stopping the accumulation of more debt. The term is most commonly used when referring to the local or national government efforts to reduce the level of debt incurred.

Fiscal consolidation is a very important aspect related to fiscal policy, thereby providing a balanced public budget, but also a functional national economy. From this perspective the EU fiscal consolidation began three decades ago with the entry into force of the Maastricht Treaty which introduced the convergence criteria.

On the one hand, fiscal discipline has been given great importance, because it provides rules to avoid "excessive deficits". Criteria imposed by the Maastricht Treaty establish that the budget deficit of the member states should not exceed 3% of GDP and public debt should not exceed 60 % of GDP.

Rules on public debt were reiterated in the Stability and Growth Pact, however, the new rules added medium-term budgetary objectives, goals that were to be defined for each state, taking into account the indebtedness and growth potential.

Although the fiscal discipline continued to be a priority at the European level, the necessity of fiscal consolidation was far from being satisfied. Under these circumstances, the Council Regulations no. 1466/1997 and no. 1467/1997 were adopted, creating new abilities for the European institutions involved in the decision-making process in the fiscal domain.

First Regulation states that "Member States must submit annual updates of the stability program (called convergence program for non-EMU members) containing a medium-term objective for the budgetary position and a description of the hypothesis and the main economic policy measures that the country intends to take to achieve its goals. Under this Regulation, the Council is empowered to make recommendations to Member States and the Commission may issue an early warning.

Regulation no. 1467/1997 comes with clarification on the Excessive Deficit Procedure and the imposing, at the same time, fines as sanctions.

On the other hand, the European Union understood the need to develop a strategy for sustainable economic growth, which had as results the Lisbon Agenda and its extension, "Europe 2020". However, the new objectives adopted by the European Union resulted in an increase of the public debt, signalling the need of further fiscal consolidation.

"The issue drawn by the new strategy, and some goals containing new and outlined background of worsening public finances, making of this the greatest problem which needs to be addressed and corrected, as it affects the economic growth, is represented by the public finances"[3].

Fiscal consolidation - keeping up with developments in the European Union - continued gaining greater importance with the occurrence and evolution of the economic crisis which determined austerity budgets and attention to public debt from Member States.

[3]Toma, E., Frunza, M. Implications of the fiscal consolidation in EU on the background of promoting sustainable economic growth, *The Annals of Ştefan cel Mare University of Suceava. Fascicle of The Faculty of Economics and Public Administration*, Vol. 11, No. 2(14), 2011, p. 214.

But what is interesting to note is that an obstacle in the process consolidating European Union tax systems is national sovereignty in tax matters. The failure of the “Treaty on Stability, Coordination and Governance in Economic and Monetary Union” confirms this and we recall that Member States accept more easily the loss of sovereignty in other areas, such as money for example, than in fiscal.

After recording this failure, the European Union still needed clearer regulations and a higher degree of binding. For this reason, in December 2011 has been adopted the so-called six-pack, a pack of six European fiscal rules: five regulations and one directive.

Six-Pack includes, in addition to fiscal surveillance macroeconomic surveillance as well through the macroeconomic imbalance procedure.

According to the six-pack the Stability and Growth Pact (SGP) rules are reinforced. The renewed SGP provisions state that Member States' budgetary balance must incline to reach the country-specific medium-term objective (MTO) and, of course, that the government deficit must not exceed 3% of GDP and public debt must not exceed 60% of GDP. The Excessive Deficit Procedure (EDP), which applies to Member States that have breached either the deficit or the debt criterion, is also reinstated.

This new set of rules re-imposes regulations set by the Stability and Growth Pact. But the novelty of the Six-Pack is a quantitative definition for “significant deviation” from the medium-term objective.

Moreover, the six-pack reinvents the Excessive Deficit Procedure in order to be applied in cases the debt ratio is above 60% of GDP and it does not lower towards the value established by the Maastricht Treaty at a satisfactory rhythm.

Also, according to the Six-pack, financial sanctions can be applied to euro-area Member States in a gradual way and they can reach 0.5% of GDP of the state that had been sanctioned. Furthermore, the new rules introduces reverse qualified majority voting for adoption of the sanctions, making them more applicable, as reverse qualified majority voting means that a recommendation or a proposal of the Commission is considered adopted in the Council unless a qualified majority of Member States votes against it[4].

4.The convergence of the national fiscal systems

The second aspect of the fiscal development concept is the convergence of the national fiscal systems. This would imply a set of common fiscal procedures, similar fiscal rules or at least similar levels of taxation.

Given the current situation of the development of European decision-making structures, national fiscal policies, one important aspect of national sovereignty, require a series of supranational regulation in order to coordinate them and to ensure the effectiveness of the entire construction community.

In this situation, the best alternative to provide a minimum convergence of the national fiscal systems is the fiscal harmonization.

The tax harmonization is adopting the tax laws in different jurisdictions, such as regions or provinces neighbouring countries, which are consistent with one another. Tax smoothing process involves applying the same set of tax rules for multiple regions, states or provinces.

Tax harmonization is mentioned in art. 93 CEECs, which refers to indirect taxes. This concept implies rather reducing disparities between national tax systems,

[4]See also: http://ec.europa.eu/economy_finance/articles/governance/2012-03-14_six_pack_en.htm

the idea of facilitating the formation and functioning of the common market.

"The concept of tax harmonization identifies a process by which different tax systems tend toward a tax structure more or less homogeneous and, for each source of tax revenue for the same tax burden. The mechanism is simple. As long as the transition costs from / in a tax system are not prohibitive, convergence occurs spontaneously: people evaluate different tax systems and move their property taxes to more favourable jurisdictions"[5].

One aspect why the tax harmonization is preferred at the European Union is because it does not require the stringent action centrally coordinated by a Community institution. On the other hand, harmonization is not the equivalent of standardization for MS. Eloquent example of this is the value added tax. There is a minimum of 15% VAT applied to Member States of the European Union so states can choose a level of charging more than 15 % , but not below it.

In other news, tax harmonization is a very important issue from the perspective of the European Union capital taxes, taxes for which there are important differences between EU countries. These differences raise the level of competition to attract capital. This aspect is particularly important, as the European Union capital enjoys free movement between Member States. Tax harmonization at EU level is achieved by regulations aimed at both the system of indirect taxes and direct taxes.

With the entry into force of the Lisbon Treaty, EU powers regarding the regulation of indirect taxes were increased. According to article 113 TFEU the EU Council is empowered to adopt the harmonization of legislation concerning turnover taxes, excise duties, to the extent that such provisions are necessary to ensure the organization and functioning of the common market and to avoid distortion of competition.

Harmonization in this area is done through secondary legislation and drafted by the Council. We note that in most cases secondary legislation takes shape decisions and directives. Directives are most suitable for harmonization, since they are binding only on the results to be achieved, while the remaining states with discretion regarding the means to achieve these goals. On the other hand, uniform tax would generate if all states would have the same tax rate, therefore, Member States of the European Union would lose the benefits of tax competition.

Uniform tax would have two important effects: on the one hand, of course, does not allow taxpayers to erode the tax base in their jurisdiction, also, on the other hand, cancels able to evade resources from jurisdictions with high tax to jurisdictions with low tax.

Uniform tax would either force Member States with higher tax to reduce this level ,which would mean reducing budgetary revenues of the respective states , or would force states with lower tax levels to increase this level, which creates dissatisfaction among taxpayers and increased tax evasion.

[5]Colombatto, E. 2012. *Fiscal harmonization: credible goal or Trojan horse?*, Institut de Recherhes Economiques et Fiscales, p. 13, available at http://fr.irefeurope.org/

4.Conclusions

Although the convergence of the national fiscal systems had begun, the European Union is far from having a single fiscal system.

On one hand, positive integration is the prevailing taxation. Such aspects of customs duties VAT and excise duties are generally covered by the Directives.

"On the other hand, positive integration is a way to correct the policy by attempting to regain some of the autonomy of states in terms of public policy"[6].

Regarding fiscal policy, the minimum tax rate of 15% required at Community level is the most important negative effect of the integration type. Such regulation could lead to a "European fiscal snake".

States continue to regard fiscal policy as the main attribute of national sovereignty, which is why this area is applied rather positive integration. The success registered by the European Union in this area is the coordination of Member States' direct tax and tax harmonization.

However, because the European Union is limited authority regarding taxation, it acts in the sphere of free movement of goods, services, people and capital to coordinate fiscal policy of member states.

The future wellbeing of the European Union we believe that heavily depends on a higher degree of fiscal development, but due to a lack of a unitary fiscal policy, similar to the monetary one, for instance, this goal will be quite hard to reach.

[6]Scharpf, F. W. *Governing in Europe: Effective and Democratic?* Oxford: Oxford University Press, p. 45.

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