Ferenc Kollárik[22]

Eurozone-crisis management in neofunctionalist framework – A European Fiscal Union?

Abstract

The global economic crisis of 2008-2009 and its negative consequences had a serious impact on the Economic and Monetary Union (EMU). As a result of the crisis, the break-up of the Euro Area became a real threat in the European Union (EU). Therefore, member states finally decided to launch significant reforms with the primary aim of strengthening the European Economic Governance (EEG). Given that the original architecture of the EMU had rather been asymmetric, it seemed obvious to focus – inter alia – on the fiscal side of the integration. The reform of the EEG is an important issue from theoretical perspective as well, because it projects the transformation of the EMU's structure and – in the long run – the deepening of the EU. The aim of the paper is to provide a general overview on the current debates of the possibility of a European Fiscal Union (EFU). Furthermore, the study raises the issue of a larger budget and a European tax which would probably be the most powerful element of a European Fiscal Union. The paper examines the issue of the EFU in neofunctionalist framework and argues that this theory has a relevance in explaining the Eurozone-crisis management in the long term.

Keywords: *Eurozone crisis, neofunctionalism, European Fiscal Union, EU budget, European tax*

I. Crisis and reforms from neofunctionalist perspective

The global economic and financial crisis of 2008-2009 and its negative consequences had a serious impact on the European integration, especially on the Economic and Monetary Union (EMU). The depression led to sovereign debt crises in numerous member states of the Euro Area which revealed the latent problems (sub-optimality) of the EMU. In this respect, the asymmetric architecture of the Eurozone can be mentioned primarily. It refers to the dichotomy that monetary policy became a truly supranational territory, while fiscal policy remained in the hands of the Euro Area members. The crisis affected the Eurozone so deeply that its break-up was among the potential scenarios (see e.g. ASLETT and CAPORASO, 2016). Consequently, member countries finally decided to launch significant reforms in order to strengthen European Economic Governance (EEG). Niemann and Ioannou (2015) argue that *'the pre-crisis institutional framework considerably advanced under all main policy areas of EMU'* (NIEMANN and IOANNOU, 2015: 7).

This reform process is a very significant and relevant issue from the perspective of integration theory as well, since it may cause the transformation of the EMU's (and also the EU's) structure and functioning. The theoretical debate between the two major integration

[22] Assistant lecturer – National University of Public Service, PhD student – Corvinus University of Budapest
kollarik.ferenc@uni-nke.hu

theories –neofunctionalism and (liberal) intergovernmentalism – can be perceived regarding the Eurocrisis-management, too. The Neofunctionalist school focuses on the puzzle of supranational reforms, while intergovernmentalism concentrates on divergent national preferences (HOOGHE and MARKS, 2019). The key question here is whether the new solutions will result in the deepening of the EMU (and indirectly of the EU). Considering the fact that functional pressures were amplified due to the sovereign debt crisis, it seems logical to argue in favor of the relevance of the neofunctionalist theory. Focusing on the asymmetry of the EMU, the creation of a European Fiscal Union (EFU) could mean the springboard towards the fiscal federalism.

II. European Fiscal Union

The idea of a European Fiscal Union was first published in the report of the European Council in 2012 (ROMPUY, 2012). The objectives of this report were later confirmed in the 'Report of the Five Presidents' published by the European Commission (JUNCKER ET AL. 2015). The EFU would strengthen the 'economic' side of the EMU which and would lead to a closer integration structure. This institutional design is typical in federal countries (such as the United States of America or Germany) where the issue of centralization/ decentralization of different fiscal competences is a key point.

However, it is problematic that a single definition of fiscal union cannot be found in the scholarly literature. For instance, Dabrowski (2015) defines fiscal union in broad terms, *'as transfer of part of fiscal resources and competences in the area of fiscal policy and fiscal management from the national to supranational level'* (DABROWSKI, 2015: 7). Fuest and Peich (2012) identifiy five criteria for a fiscal union: (1) fiscal rules, policy coordination and supervision; (2) a crisis resolution mechanism; (3) joint guarantee for government debt; (4) fiscal equalization and other mechanisms for transfers between countries; and (5) a larger EU budget and European taxes. However, the authors stress that a fiscal union does not have to contain all the elements (FUEST and PEICHL, 2012). This paper focuses on the fifth criterium, the European fiscal capacity.

III. Strengthening the European fiscal capacity: larger budget and European tax

Federal countries typically have sizeable budgets, therefore it is possible to centralize important functions. Compared to other federations – especially to those which are currency unions – the EU's fiscal capacity is extremely undersized, and represents only 1 percent of the EU GDP (WOLFF, 2012; KAKOL, 2017; COTTARELLI, 2016). The revenue side consists of customs duties (traditional own sources), of a small percentage of VAT revenues and, predominantly, of national contributions. The spending side contains only some programs which are related to the regional (cohesion) policy and the common agricultural policy (CAP) (COTTARELLI, 2016). Cottarelli (2016) argues that a larger budget would be necessary to ensure the good functioning of the monetary union. This is because a sizeable central budget may promote macroeconomic convergence within the Euro Area through different channels: (1) centralization of certain spending and revenue policies fosters the convergence of product and factor markets; (2) centralization of fiscal policy decisions may help to reduce the risk of free riding; (3) centralization of automatic stabilizers may be the best way to achieve risk sharing; and (4) a larger budget can more easily implement discretionary counter-cyclical policies (COTTARELLI, 2016).

The idea of a larger fiscal capacity raises the issue of European taxes, because the existence of a common tax is indispensable to create a genuine economic (fiscal) federation. Marján (2013) claims that a potential European tax should be introduced in a 'budget-neutral' way. Probably, the sharing of VAT revenues would be the best way of this (MARJÁN, 2013).

Following the outbreak of the sovereign debt crisis, numerous reforms were launched in the Eurozone. The issue of a European Fiscal Union has been on the agenda since 2012. The exact form and content of it is still vague, but it has to be underlined that the creation of a fiscal union would be a significant milestone in the deepening process of the integration.

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