Overcoming the Divergence Between the National Fiscal Policies in the EU

Summary: The article discusses the main achievements and failures of fiscal policy in the European Union. It also examines potential scenarios for EU fiscal policy. The article looks at how EU member states approach the idea of transferring fiscal policy tools from the national to the EU level. In this context, the author discusses the advantages and disadvantages of a common EU fiscal policy. The assessment of this policy is influenced by temporary factors such as a financial crisis. To offer a broader picture, the author analyzes the current economic situation in the EU and the implications of the latest financial crisis. The article also refers to past challenges, achievements and obstacles to a sustainable fiscal policy, starting from the 1970s.

The methodology adopted by the author is based on an analytical approach that makes it possible to assess the collective efforts of member states to harmonize their national fiscal policies. The adopted method also makes it possible to examine the adequacy of anti-crisis measures taken by member states.

In addition, the author uses a comparative method to present the diversity of political cultures, preferences and challenges stemming from the size of national economies. The results of the analysis show that the governments of individual member states are aware of the need for greater flexibility in negotiations on harmonizing fiscal policies at the EU level and are ready to reduce their fiscal sovereignty (as evidenced by the outcomes of anti-crisis summits). However, a further transfer of fiscal powers or fiscal unity do not mean that national governments will be completely deprived of control over fiscal policy, at least not for now, the author says.

Keywords: fiscal policy, European Monetary Union, financial crisis, economic governance

JEL classification codes: E62, E52, F33
Introduction

The European Economic and Monetary Union (EMU), which aims at converging the economies of the Members States (MSs), constitutes one of the most remarkable achievements of the European Union (EU). All the EU countries create and participate in the EMU, however, only 17 of them take part in the third (last) phase which is the common currency. Apart from the internal facilitations, the EMU is supposed to guarantee Europe a leading role in the globalised economic world. The era of the world’s bipolar balance of economic powers belongs to the past and the new players have appeared in the game (e.g. the BRICS countries – Brazil, Russia, India, China, South Africa). In order to be competitive and economically strong, Europe needs a convergent and efficient policy and the EMU pretends to guarantee this status.

On the other hand, the EMU is a difficult challenge. Some sectors of the economy are still subject to national laws and the EMU policies coordination significantly differs from the management of national level of economic policies. First of all, the European-level area does not have a government which can supervise its actions (the European Commission plays a different role and it cannot be compared with the government) nor a government which can conduct the fiscal policy [Ardy, 2009: 3]. Secondly, the EMU consists of 27 still quite divergent Member States and even the common monetary policy is sometimes distorted and affected by the lack of collective thinking which was visibly revealed by the financial crisis in 2007 onwards.

Notwithstanding the disadvantages, the EMU is a big step forward to complete the Single Market and it assures a better cooperation and integration among the EU actors. The aim of this article is to verify the MSs’ attitude towards the further transfer of the macroeconomic tools from the national to the EU level – namely the transfer of the fiscal policy. Furthermore, the article is to present a wider perspective of the possible common EU fiscal policy’s advantages and disadvantages, whose assessment may be distorted, but also accelerated by the temporary pressures (e.g. the financial crisis).

Fiscal policy vs. monetary policy – theoretical approach

Before coming to the EU fiscal unification debate, a short theoretical introduction, relative to the general need for the coordination of fiscal role (usage of government spending and revenue to influence the economy) and monetary role (regulation of the money supply and interest rates in order to control inflation and stabilise currency), is presented.

In 1981, Thomas J. Sargent and Neil Wallace published the article on ‘monetarist arithmetic’, which was, inter alia, a response to the Milton

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1 Data for November 2012.
2 The Nobel Prize laureate in Economic Sciences (2011), which he received with another American economist Christopher A. Sims.
Friedman’s assumption that a monetary authority could independently exert substantial control over the inflation rate (especially in the long perspective). The paper aimed at proving that the monetary policy is not the sole instrument to control the evolution of the price level, even if the monetary base and the price level stay closely connected. What should also be taken seriously into account is the fiscal policy and its coordination with monetary decisions. Sargent and Wallace described two coordination schemes. The first one assumed that the monetary policy dominates the fiscal policy. The monetary authority separately (independently) establishes its policy (e.g. growth rates for base money), which results in determining the amount of the government’s revenue from seignorage. Then the government (i.e. fiscal authority) ‘faces the constraints imposed by the demand for bonds, since it must set its budget so that any deficits can be financed by a combination of seignorage chosen by the monetary authority and bond sales to the public’ [Sargent, Wallace, 1981]. The second scheme outlined the consequences of the fiscal domination over the monetary policy, where the latter ‘faces the constraints imposed by the demand for government bonds, for it must try to finance with seignorage any discrepancy between the revenue demanded by the fiscal authority and the amount of bonds that can be sold to the public’ [Sargent, Wallace, 1981]. Thus, without balanced coordination of the fiscal and monetary policies, both of them will face serious hazards. Sargent characterized the above presented coordination problem as a ‘chicken game – who will blink first, the government or the central bank?’ [Canzoneri, Cumby, Diba, 2011: 941]. Some Unpleasant Monetarists Arithmetic constituted an important step in recognising the fiscal policy role (i.e. equal to and coordinated with the monetary role) in regulating the inflation.

Referring the close interdependence of the discussed policies to the EMU, an interesting point of view was presented in 1999 by another American economist – Christopher A. Sims. The 2011 Nobel Prize laureate stated that: ‘The European Monetary Union has the appearance of an attempt to create a central bank and a monetary unit that have no corresponding fiscal authority behind them. In the light of this new fiscal approach to the price level, such an attempt appears to carry with it great dangers’ [Sims, 1999: 1]. Moreover, Sims added that independence of the European Central Bank (ECB) should not be based upon ‘disconnection’ from the national governments, which are responsible for the fiscal decisions. Experiencing inflationary or deflationary stresses, the ECB should not worry about (not)forthcoming fiscal support. The Nobel Prize laureate clearly stated that the EMU is unlikely to survive unless the EU decision-makers change their attitude towards the fiscal and monetary ‘separation’ [Sims, 1999: 12].

The remarks of the American scientists, as well as the American federal model constitute valuable contribution to the discussions on the EMU and on

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3 Although the article was written in the process of the euro area creation, its main assumptions concerning the divergence between the fiscal and monetary policies in the EU remain up-to-date.
a further transfer of the national fiscal policies to the European level. Although the US is not the only economic and monetary federation in the world, the European politicians know it very well and treat it as a point of reference. The US example provides the European decision-makers with important lessons starting from the first attempts of Alexander Hamilton to create the Bank of the Unites States (the last decade of the 18th century) through the state defaults in the 1840s, after the Civil War, during the Great Depression of the 1930s and ending up with the wide-spread municipal defaults between 1970-2010 [Henning, Kessler, 2012:1-6]. What should, however, be stated is the fact that neither the experience nor the possibility of conducting the monetary and fiscal policies from the same level safeguarded the US against the contemporary financial crisis. Other mechanisms have failed. Therefore, it is crucial to clearly define what the main causes of the crisis were/are and what should be improved in order to avoid such situations in the future.

A similar observation refers to Europe. The monetary and fiscal divergence still retains the status of ‘priority problem’ to be solved, however the close inter-relations between other economic factors should not be forgotten. Moreover, these factors indirectly and sometimes directly deteriorate the fiscal and monetary policies. In this context, Jean Pisani-Ferry from Bruegel distinguishes three main components (‘a new impossible trinity’) which influence the euro area vulnerability. They are: no co-responsibility for public debt, strict no-monetary financing and banks-sovereign interdependence. The first component corresponds to the MSs’ individual responsibility for the debt they have issued and to the ‘no bail-out clause’ (included in the art. 125 of the TFEU4) which prohibits any interference in another country’s fiscal domain. The strict no-monetary financing refers to the prohibition of the explicit, anti-crisis agreements between a fiscal authority (which does not exist in the EU institutional system) and a central bank (ECB). The last element of ‘the new impossible trinity’ is addressed to the states’ cost of banking crises and to ‘the exposure of governments to ‘their’ banks and of banks to ‘their’ governments’ [Pisani-Ferry, January 2012: 4-7].

As this section provides the reader with the theoretical approach, more analytical point of view, as well as the concrete propositions to counteract the above listed challenges are described in the part dedicated to the financial crisis. However, in order to understand better the contemporary problems, a broader context of the EU fiscal unification (or its lack) is earlier presented.

The rising internal need of the fiscal policy coordination

Taking into consideration the EU internal willingness and need of collective actions in the fiscal area, short historic background should be mentioned. Before 1970s, countries did not practice the inclusion of the fiscal policy neither into the constitutions nor any other laws. The situation changed in 1970s and

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4 Treaty on the Functioning of the European Union.
1980s when a significant number of the MSs experienced high deficits and unfavourable budget balances. With reference to the new conditions and rising interdependence, all the MSs accepted the idea of supranational coordination and rule-based approach to the fiscal policy. The question whether the European coordination of the fiscal policy should take place was not legitimate any more. The MSs asked another question – how much the fiscal policy governance should be institutionalized on the EU level [Shwarzer, 2007: 19].

Simultaneously, the Commission of the European Communities (a forerunner of the European Commission) requested a special study on the subject. The report was summarised in 1977 and named after its chairman – MacDougall Report. A significant part of the document was based on the study of public finance and financial relations between different levels of government in 5 federations (Federal Republic of Germany, USA, Canada, Australia, Switzerland) and 3 unitary countries (France, Italy and Great Britain). The report underlined also its references to a great number of books and papers relative to the ‘fiscal federalism’ [Report of the Study Group on the Role of Public Finance in European Integration, April 1977]. The authors indicated that if the European Economic Community (current EU) aims at greater integration (i.e. federation), it should increase its budget to 2-2.5% of the MSs total GDP in ‘pre-federal stage’, to 5-7% in ‘small-public sector stage’ and to 25% in ‘federal large-public-sector stage’ [Euro-Know]. In order to achieve such a remarkable augmentation of the budget\(^5\), the MSs should transfer to the communitarian level at least some of their fiscal revenues. Although a majority of the report’s recommendations was not implemented, the document played an important role in convincing those decision-makers who had neglected the public finance aspects of economic union.

Another reason for more cohesive thinking towards the fiscal policy was and still is the influence of the excessive increase of national deficits and debts on other macroeconomic areas. The excessive deficits and debts reduce scope of the fiscal policy as a mechanism stabilising domestic demand what is connected with the sustainability of public finances and economic growth. Moreover, if government borrows too much, it influences the interest and exchange rates and these two disciplining tools are transferred in the EMU from the national to the European level [Farina, Tamborini, 2008: 19-20].

Finally, too expansionary fiscal policy of one of the MSs may result in higher inflation, which will have an impact on the common price stability and even on the whole economic stability as the goods and capital markets are closely connected within the eurozone. Such selfish behaviour creates new externalities for the participants of the Single Market – the European Central Bank’s decisions, imposed because of one MS’s actions (e.g. excessive deficit), have a result on all players in the game.

Taking into account all the above mentioned arguments and in order to ensure the economic consistency in the euro area, the MSs have launched a cruise for a well-structured and effective cooperation in the fiscal policy area.

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\(^5\) The 2011 EU own financial resources did not exceed 1,3% of the 27 MSs aggregated GDP.
Obstacles to the common fiscal policy on the EU level

Notwithstanding the common agreement that the fiscal policy should be coordinated on the European level, there is also another consensus – the MSs prefer to retain their sovereignty over the national budgets as much as possible.

Firstly, from the political point of view, the fiscal policy seems to be one of the main elements of national sovereignty. This fact is underlined by inclusion of the budgetary rights of democratically elected parliaments into the national laws.

Secondly, the MSs possess different and divergent political cultures, preferences and laws which was outlined in a special research conducted by the German researcher Jurgen von Hagen. He verified the correlation between fiscal performance and fiscal constitutions in 11 European countries (the EU members and Norway) during the period 1972-1992. Von Hagen created so called ‘structural budget index’ with five dimensions building up the fiscal constitution: (1) preparation of the government draft budget; (2) parliamentary decision-making in the budget; (3) delegation regime for in-year budget; (4) content of budget documentation; (5) long-term goals for the development of public finances. The increase of the structural budget index adequately meant: ‘(1) the ministries of finance had had stronger prerogatives in the drafting process; (2) the parliamentary majority had faced severe restrictions when making its budget decisions; (3) the delegation regime of the in-year had been less flexible; (4) the budget documentation received by parliament had been more comprehensive; (5) the planning horizon of public finances had been longer’ [Strauch, Von Hagen, 2000: 108].

Analyzing the Von Hagen’s results, the difference between the winner – France with 68 points and the looser – Italy with 20 points was quite significant (84 was a maximum, 38 was an average score). Moreover, even if some indexes gained similar scores, they varied in the distribution of points among the five dimensions, e.g. the results of Germany and Netherlands were close to each other, however Germany gained most of the points in the ‘fixed delegation regime of the in-year’ dimension and Netherlands had an advantage in the comprehensiveness of budget documentation received by parliament [Strauch, Von Hagen, 2000: 109]. The results showed that the gaps and differences in the fiscal constitutions among the MSs were visible.

Another obstacle for unity of the national fiscal policies on the EU level is the heterogeneity of small and large MSs. Taking into account the adjustment to the asymmetric shocks or general economic terms, the macroeconomic situation of the small MSs varies from the large ones (e.g. the small economies’ tools of adjustment to recession or unemployment have a different scope and effects). This fact was accurately noticed by two economists – Jacques Le Cacheux and Francesco Saraceno, who stated that: ‘For a small open economy, traditional fiscal policy of the Keynesian kind will usually be of little efficiency, whereas all policies that improve the competitiveness of the national economy by lowering
production costs of firms located in the domestic economy are relatively more powerful: this may explain why fiscal consolidations in small countries have been found to have ‘non-Keynesian’ effects (...) for large countries, on the contrary, free riding is impossible, and various policy choices reviewed above tend to be more costly, or even counterproductive. Traditional, Keynesian-style demand-management policies, especially fiscal policies, are more effective than for a small economy (...)’ [Farina, Tamborini, 2008: 152]. This comparison again underlines the difficulties in the fiscal policy coordination on the EU level.

Finally, to approach a variety of the fiscal decisions taken in particular MSs, the table no 1 presents budgetary deficits and public debt ratios in 17 countries from the eurozone between the period 2006-2010. However, it should be noted that the costs of servicing debts in the countries with more stable and ‘reliable’ economies are lower than the costs of debts in less predictable countries. For instance, Germany with the debt ratios on the level: 67.7% (2006), 65% (2007), 66% (2008), 73.2% (2009) and 83.2% (2010) of GDP paid for the 10-year term government bonds the following interest rates: 3.76% (2006), 4.22% (2007), 3.98% (2008), 3.22% (2009) and 2.74% (2010). While Spain with the debt ratios on the level: 39.6% (2006), 36.2% (2007), 39.7% (2008), 53.2% (2009) and 60.1% (2010) of GDP experienced a higher financial burden of the 10-year term government bonds: 3.78% (2006), 4.31% (2007), 4.36% (2008), 3.97% (2009) and 4.25% (2010) [Eurostat and OECD.StatExtracts].

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Fiscal deficit and public debt ratios, euro area countries, 2006-2010 (as percentage of GDP)</th>
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<tr>
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<td>2006</td>
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<tr>
<td>Belgium</td>
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<td></td>
<td>88.1</td>
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<td>Germany</td>
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<tr>
<td></td>
<td>67.6</td>
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<td>Slovenia</td>
<td>-1.3</td>
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<td></td>
<td>26.7</td>
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<td>Ireland</td>
<td>3.0</td>
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<td></td>
<td>24.9</td>
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<td>Greece</td>
<td>-3.6</td>
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<td></td>
<td>97.8</td>
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<tr>
<td>Spain</td>
<td>2.0</td>
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<td></td>
<td>39.6</td>
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<tr>
<td>France</td>
<td>-2.3</td>
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<td></td>
<td>63.7</td>
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<td>Italy</td>
<td>-3.3</td>
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<td></td>
<td>106.5</td>
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<td>Cyprus</td>
<td>-1.2</td>
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<td></td>
<td>64.6</td>
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To conclude, the MSs seem reluctant to give-up their fiscal-decision monopoly and they present rather a prudent behaviour in transferring any part of this macroeconomic policy towards the EU level. Such behaviour can be explained by the unwillingness to lose a very important component of their sovereignty and power. On the other hand, the MSs face difficult obstacles during the process of coordination and unification of the national fiscal policies on the EU level, such as: different political cultures and preferences or heterogeneity of the small and large MSs.

**Alternative solutions for the fiscal sovereignty’s transfer to the EU level**

Although the MSs face many difficulties, cleavages and obstacles, they still appreciate and understand the need of deepening the fiscal integration process. In order to unify their fiscal policies, the MSs have established a few tools and mechanisms, which aim at improving economic consistency in the euro area.
First, the European Council at the Dublin Summit in December 1996 made a ‘fiscal milestone’ when it agreed on the Stability and Growth Pact (SGP). This political agreement provided the MSs with budget-disciplining rules and it aimed at improving the EMU’s collective actions. The SGP referred to the fiscal convergence criteria, thus the MSs were obliged to remain budget deficits below 3% of their GDP and public debts below 60% of their GDP in any year. If they had not fulfilled the above mentioned conditions, a special deficit procedure, called the excessive deficit procedure (EDP), could have been enforced. The EDP was included in the Protocol on the excessive deficit procedure annexed to the European Community Treaty by the Maastricht Treaty in 1993 [Treaty establishing the European Community].

Second, according to the SGP, the MSs had to report regularly about their debt to the European Commission (Commission) which forwarded the data to the Economic and Financial Affairs Council (Ecofin) and to the parliamentary Monetary Committee. If a MS had seriously breached the fiscal provisions, the Commission might have asked the Council of the EU (Council) to take legal actions against it [EurActiv, 29.01.2010]. However, some exceptions were possible when the deficit ‘resulted from an unusual event outside the control of the MS concerned which had a major impact on the financial position of the government or it resulted from a severe economic downturn (if the excess over 3% of GDP was the result of negative annual GDP growth or a cumulative fall in production over a prolonged period of very low annual growth)’ [Europa.eu, 29.03.2007].

Unfortunately, the SGP has not appeared so effective in the ‘real politics’. One of the reasons of its failure can be found in the MSs’ behaviour in the early phase of the SGP’s implementation (second half of the 1990s). Instead of taking advantage of the economically-promising and favourable period to apply necessary reforms guaranteeing sound fiscal positions, the MSs have been too satisfied and too passive with the positive nominal budget balances [Farina, Tamborini, 2008: 24-25]. The situation changed in 2001 onwards when the eurozone members experienced the excessive deficits one after another. In accordance with the SGP, the Commission recommended ‘early warnings’ (to Germany and Portugal in 2002) and then the launch of the EDP (to Germany and France in 2003)\(^{6}\). However, it did not manage to execute from the Ecofin neither the latter nor the former [Farina, Tamborini, 2008: 26]. This experience weakened the SGP’s position and it resulted in perception of this agreement as an important measure, but not extremely restrictive.

The increase of criticism and unfulfilled political commitments (included in the SGP) cumulated in 2005. It appeared obvious that the document was

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\(^{6}\) Thomas J. Sargent in his interview for ‘The Region’ magazine accurately pointed out that ‘France and Germany, the two key countries at the center of the Union, having violated the fiscal rules year after year lost the moral high ground to hold smaller countries to the fiscal rules intended to protect the monetary policy from the need to monetize government debt.’; read more in: Rolnick A., Interview with Thomas Sargent, The Federal Reserve Bank of Minneapolis, ‘The Region’, September 2010, p. 37.
in a great need of being reformed. During the extraordinary meeting of the Council on 22-23 March 2005 the ministers of finance finally reached an agreement on the ‘new’ SGP. The main changes concerned the following areas (both in the corrective and preventive arms): reliable trigger for an excessive deficit procedure; ‘relevant factors’ letting a country off the EDP; extension of deadlines in connection with excessive deficit procedures; country-specific medium-term objectives; reliability of statistics provided by the MSs and bigger involvement of national parliaments. Moreover, the ‘new-old’ document included a few new measures such as: ‘enhanced surveillance, peer support and peer pressure’ [EurActiv, 29.01.2010].

Apart from the SGP, the EU has also facilitated the coordination of the national fiscal policies through other multi-level platforms – e.g. the Broad Economic Policy Guidelines (BEPG) and the Macroeconomic Dialogue called the ‘Cologne Process’.

The BEPG, established by the Maastricht Treaty, constitute comprehensive mechanism of the soft-kind coordination. They are planned for a three-year period and they create the common framework for different economic policies’ implementation (since 1997 they have covered also recommendations on the national budgetary decisions). The Commission is responsible for their formulation, after taking into account the opinions and reports of the other EU institutions [Shwarzer, 2007: 22-23].

The second coordination tool – the Macroeconomic Dialogue enables the exchange of technical details and political strategies of the ECB, the Ecofin and the Commission. The main objective of this every half-year meeting is the economic consistency in the euro area (including the fiscal policies) and strengthening the work on the non-inflationary growth and employment. From the fiscal perspective, thanks to the ‘Cologne Process’ the governments obtain useful and trustful information on monetary and wage achievements in the EU [Shwarzer, 2007].

Unfortunately, the global financial crisis, which began in 2007 in the United States, showed again that documents and procedures which are not strictly binding in the real world (i.e. the SGP), go simply to the second plan – the SGP was even temporarily suspended. On the other hand, the crisis provided the governments with an important observation/ precaution. The MSs understood that either they would cooperate closer in the fiscal domain or the eurozone might be exposed to a serious threat of disintegration.

The EU fiscal policy and the financial crisis

Anti-crisis measures and provisions

After the first wave of the crisis the MSs, as well as the EU’s institutions decided to counteract. The most remarkable outcomes, which were the results of works and debates conducted during 2008-2011, could have been noticed at the EU summits on 24-25 March and 8-9 December 2011.
The main implications of the former were the treaty’s change, the permanent
bail-out mechanism, the ‘Euro Plus Pact’, the ‘six pack’ of legislative procedures
and the European Semester [Emmanouilidis, 28.03.2011: 1].

The treaty’s change (by simplified revision procedure) concerned the
amendment of the article 136 of the TFEU. This change was indispensable
to the MSs for implementing the provision of permanent rescue mechanism
without breaching the European or national laws (i.e. German Constitution).
The above mentioned rescue mechanism – the European Stability Mechanism
(ESM) – was to be established outside the EU structure and its main aim was
defined as strictly conditional assistance offered together with the International
Monetary Fund to the euro countries with serious economic (mostly fiscal)
problems. The ESM was launched on 8 October 2012 and it was supposed to
replace the European Financial Stability Facility and the European Financial
Stabilisation Mechanism, nonetheless through a gradual process (i.e. the EFSF
will remain until all loans have been given back).

Considering the ‘Euro Plus Pact’, it aimed at making the eurozone countries
coordinate their economic policies – ‘in order to improve competitiveness,
foster employment, contribute further to the sustainability of public finances
and reinforce financial stability’ [Emmanouilidis, 28.03.2011: 8]. The ‘Euro
Plus Pact’ was a successor of the ‘Pact for Competitiveness’ which had earlier
been developed by the French-German tandem. The ‘Euro Plus Pact’ excluded
some ‘controversial’ solutions proposed by Paris and Berlin. Apart from the
eurozone members, Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania
decided to join the Pact.

As far as the ‘six pack’ is taken into account, its main objective concerned
strengthening the economic governance in the EU and four out of six legislative
acts referred to the reform of the Stability and Growth Pact. Therefore,
the ‘six pack’ is sometimes titled the SGP III. The two other legislative
proposals created new frameworks for the macroeconomic surveillance in
order to limit the eurozone members’ economic imbalances and divergences
(e.g. in competitiveness). The ‘six pack’ entered into force on 13 December
2011.

Finally, the European Semester was introduced as a process which should
ameliorate the MSs’ economic policies coordination. It attempted to implement
the European aspect into the national budgetary and economic strategies and
plans (e.g. ‘Europe 2020’ strategy objectives).

The second very important meeting on the further anti-crisis steps and
solutions took place on 8-9 December 2011. On 9 December around 5 a.m.
Brussels time and after strong Great Britain’s objections, the EU leaders agreed
on a new ‘fiscal compact’, officially titled Treaty on Stability, Coordination and
Governance in the Economic and Monetary Union. The new fiscal agreement
took the form of a new Treaty (an intergovernmental agreement) outside the
EU legal framework [EurActiv, 09.12.2011]. The summit’s main conclusions
referred to: ‘(1) the sanctions on budget rule-breakers which would apply
automatically (according to the new ‘fiscal treaty’); (2) the MSs’ budgets which
should be balanced or in surplus into their national constitutions ‘or equivalent level’; (3) the recognition of the Court of Justice of the EU as a guardian of this rule’s transposition at national level; (4) the eurozone countries’ obligation to submit their draft budgetary plans to the European Commission before they are adopted by their national parliaments (but without the Commission’s power to annul them) [EurActiv, 09.12.2011]. The ‘fiscal compact’ was finally signed in March 2012 by all the EU countries apart from the Great Britain and Czech Republic and it should come into force in January 2013 after the ratification of at least 12 eurozone MSs.

‘The suitability’ of the proposed measures and provisions

Taking into account the ‘suitability’ of the above mentioned measures and provisions, it is advisable to refer them to the main challenges revealed by the crisis. Firstly, the contemporary poor economic situation has distinctly shown that the past violations of the fiscal rules, both on the national and EU levels, result in negative effects in the future. For instance, the 2003 German and French infringements of the SGP (which failed to be fined) set a negative example for other countries with high deficits and created undesirable feeling of impunity. To a certain extent it enabled Greece to cheat with its economic data, as well as Italy to maintain a too high level of public debt. In this context, the ‘fiscal compact’ automatic sanctions on budget rule-breakers with the reverse qualified majority voting (i.e. rule-breakers would be sanctioned automatically unless there is a qualified majority against the sanctions), likewise the ‘six pack’ reforms constitute a remarkable step forward. Nevertheless, the author agrees with the Antonio Vitorino’s remarks on certain limitations of the ‘fiscal compact’. The President of Notre Europe stresses that this 16-article Treaty should be a central, but in the same time a starting part of a much wider European economic strategy and it ought to be supplemented with at least three components: an additional protocol on growth, ‘Banking union’ and better economic coordination and monitoring – ‘Economic union’ [Vitorino, 07.06.2012: 3].

The latter challenge, which can be described in other words as a gap between the European and national levels of macroeconomic policy-making processes (including the fiscal one), is partially covered in the European Semester and ‘Euro Plus Pact’. These two instruments increase the interaction between the Commission, the European Council and the governments of the MSs. There is also another very important factor in these cooperation and monitoring procedures – their cyclical character. Although the MSs have proved willingness to make commitments and consult their stability/reform programmes with the EU institutions during the crisis, both parties did not attach too much weight to it during the boom periods. Such a selective attitude allows the MSs to delay or even restrain from difficult but needed changes. ‘Good times’ are more conducive to implement the structural reforms because part of the costs of new adjustments can be compensated by the ongoing growth. From this
Perspective, the MSs’ obligations resulting from the European Semester or the ‘Euro Plus Pact’ constitute additional pressure to reverse the trend and to break the political unwillingness to make unpopular decisions during the prosperity. On the other hand, the ‘Euro Plus Pact’ itself still leaves significant space for the inter-governmental (i.e. non-communitarian) willingness or unwillingness to obey the rules.

Taking into consideration the ESM/EFSF ‘suitability’, the Greek, Irish, Portuguese, Italian and Spanish fiscal difficulties sufficiently underline the need of a common and robust firewall, which will be able to guarantee the EU solvency during the crises. However, the permanent rescue mechanism cannot be overused and treated as a direct cancellation of the ‘no-bail-out’ clause included in the SGP. Then, it could evoke the moral hazard problem. Moreover, there are other crucial questions remaining. The discussions on the final form of the permanent rescue mechanism trigger further uncertainties connected with the scope of private-sector involvement, pay-back period, interest rates and lending capacity (in May 2012 the ESM/EFSF capacity was increased to 700 billion euros). Furthermore, the ESM/EFSF lends money to the governments (burdening the MSs debts) and the possibility of transferring the financial support directly to the mostly vulnerable entities (nowadays banks) is still being deliberated.

All the above-mentioned measures constitute an important step forward towards overcoming the economic crisis and making the EU’s fiscal coordination more cohesive. The measures’ importance and ‘suitability’ are not entirely generated by the content of the agreed provisions, but also by the fact that 27 MSs finally managed to speak with one voice on the fiscal issues. Moreover, this voice seems to be louder and more expressive than the fiscal provisions and positions which have been established or discussed during the period of the last decade (2000-2010). Nonetheless, there are at least three reasons to take restrained and prudent position on the success of the March and December (2011) summits. Firstly, most of the mentioned achievements are still left in the intergovernmental decision-making process which can slower or disrupt the expected results by using the veto power. It was significantly underlined by one of the founding fathers of the European single currency – Tommaso Padoa-Schioppa, who said that a system in which ‘the judges are the same people as those in the dock’ cannot possibly work [Notre Europe, 7.12.2011: 1]. Secondly, the taken measures to be effective need to be fully implemented and such process takes a considerable amount of time, likewise it is fulfilled with many amendments and changes made by the European Parliament, national parliaments and the MSs themselves. Such procedure seems to be natural in the democratic systems and it generally works in the long run, nonetheless in the light of the economic crisis it may appear as too long-standing solution. Finally, the borderlines, as well as the inter-relations between the ESM, ‘Euro Plus Pact’, the ‘six pack’, the European Semester and the ‘fiscal compact’ are not clearly defined and it is difficult to unanimously state that all these mechanisms will be compatible (not interfering each other).
What is missing?

The crisis revealed a number of weak points of the European Economic and Monetary Union. Many of them had been known almost the decade before the collapse of Lehman Brothers or the Greek solvency problems. However, the MSs underestimated the defects of the international financial system and the lack of a proper supervisory authority over the banking system (especially on the subprime market), as well as they did not pay enough attention to the danger of too loose, too excessive and too divergent fiscal policymaking. As the present article refers to the latter challenge, the author presents in the previous sections the concrete initiatives which aim at improving the coherence of national and European (communitarian) levels of the fiscal domain. On the other hand, the important fragments of this ‘counter-crisis puzzle’ are still missing. First of all, the decisions to take the measures are half the battle. The common acceptance and the full implementation of the proposed solutions constitute the second and indispensable step. Moreover, if the MSs and the EU bodies would like to preserve the EMU and the eurozone, they should go further in reforming, particularly through creation of the EU level of the fiscal policymaking. From this perspective, the author proposes two approaches. The first one is related to the institutional changes and the second one to the political reforms.

With reference to the former, the EU decision-makers should finally decide which of the existing institutions must be restructured and what kind of ‘additional’ bodies should be created. As one of the responses for ‘the new impossible trinity’ (shortly presented in the first section) Jean Pisani-Ferry suggests extending the ECB’s role to a lender-of-last-resort for sovereigns. It would allow the ECB either to lend for a defined period of time to a state at the rate above the risk but below the one which is defined by the market or to credit a public entity (e.g. the EFSF/ESM) in order to provide a credible firewall [Pisani-Ferry, January 2012: 9]. However, this idea is strongly opposed by Germany which puts pressure on the ECB to focus on the monetary policy and its inflationary aim.

If not the ECB, the EFSF/ESM should be provided with greater legitimacy and a broader range of possible activities. For instance, the fines and other financial sanctions could be transferred to the permanent rescue mechanism’s account and serve as the insurance fees [European Commission, September 2010: 1]. Naturally, it must be supported by other financial contributions, deposits or even temporary tax revenues.

The possible common acceptance among the MSs to share on the EU level a part of their fiscal revenues evokes another question about the fiscal union and the Eurobonds. The fiscal union does not necessarily mean the complete transfer of the MSs’ budgetary rights and public spendings to the EU level. It can also take a form of an additional common fiscal framework which would: (1) supervise the MSs’ budgetary decisions; (2) be equipped with a law possibility of intervening in case of the rules’ breaking; (3) be able to partially guarantee
the eurozone (and later on – the whole EU) solvency, inter alia through issuance of the Eurobonds. Thanks to the Eurobonds the fiscal problems of one MS and the potential decrease of the foreign investors’ trust would be mitigated by the other member countries’ guarantees. Moreover, the issuance of the Eurobonds could strengthen the European investment and growth agendas. Finally, the above mentioned fiscal framework could be supported by the EU agencies or independent ‘fiscal watchdogs’ [European Commission, September 2010: 7] established in each MS. They would play a role of intermediaries between the EU and national fiscal frameworks. Nonetheless, such a solution should be thoroughly analysed because every additional institution triggers additional costs, i.e. it burdens the budget in the time when the budgetary sector and services are being limited.

Taking into consideration the political reforms, the MSs should change their attitude towards the public deficits and debts. First of all, ‘hiding’ the public debt by creation of the national agencies which takeover some of the governmental responsibilities and a part of the public debt should be limited. The private and semi-public debts are not included in calculation of the public debt, but in the long run they can also weaken the investors’ and business partners’ trust and deteriorate economy. It can lead consecutively to devaluation, recession and rise in the public debt. However, stricter supervision of the private and semi-public debts does not mean hampering the free-market rules or impeding the privatisation.

Secondly, the effects of political cycles, which tend to loosen the fiscal policy before the upcoming elections without any reliable economic reasons, must be limited to a minimum. The MSs should elaborate the medium-term fiscal programmes, discuss them on the EU level and head for the established goals no matter the political situation. Without the independent ‘fiscal watchdogs’ or the EU level of fiscal policymaking this postulate is unlikely to be considered.

Finally, during the crisis the financial markets and the rating agencies have put a great pressure on the decision-makers to take the ‘necessary’ and very fast decisions. On the other hand, their role in predicting/preventing the crisis had hardly been noticeable. Thus, next to the permanent crisis mechanism the MSs require the early-warning instrument whose status and issued opinions would be politically and technically accepted by all the governments.

**Conclusion**

To conclude, since 1970s the MSs have increasingly appreciated the common attitude and common actions towards the unification of their national fiscal policies. In order to avoid unfavourable excessive deficits and high debts, and to assure the consistency in the euro area, all the EU players have tried to establish the most efficient and, in the same time, acceptable for everybody rule-based procedures and mechanisms. However, in the light of the crisis, the MSs’ attempts – ‘binding/not-binding’ SGP and soft-tools such as the BEPG or the ‘Cologne Process’ – turned out to be simply ineffective.
Although this text concerns the advantages and disadvantages of transferring the national fiscal policies to the EU level, the crisis constitutes an inseparable part of the problem. It serves as an indicator which policy areas have been the most vulnerable and have malfunctioned. Not accidentally the majority of the taken measures refer to the fiscal domain (and to the EU MSs divergent attitudes towards this policy) as it is the prime challenge to be solved. Moreover, the crisis showed that having one macroeconomic instrument (the monetary policy) highly integrated at the EU level and the other macroeconomic tool (the fiscal policy) left at the national levels might result in serious consequences. These consequences are not only connected with the threat of deeper divergence, but also with so called ‘unpleasant arithmetic’. The latter means that one of the policies dominates the other evoking certain economic constraints.

The MSs seem to understand the fact that in order to avoid the effects of the asymmetric shocks or distortion of the economic growth in the EU, they have to jointly follow the fiscal rules and they should be more flexible in the negotiations on the EU’s fiscal unity. Nevertheless, ‘further transfer’ or ‘fiscal unity’ do not mean (at least yet) that the national governments will give up their full sovereignty over the fiscal policy.

Finally, to convince the MSs to obey the fiscal austerity, the EU’s institutions cannot offer only the stick (budget’s restrictions), but they must also consider the carrot, i.e. the EU’s decision-makers should develop the effective and doable growth incentives which can be implemented on relatively short notice.

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Dążenia do Ujednolicenia Narodowych Polityk Fiskalnych w UE

Streszczenie

Celem artykułu jest identyfikacja, przedstawienie głównych osiągnięć i porażek oraz analiza potencjalnych scenariuszy związanych z prowadzeniem polityki fiskalnej w ramach regionalnej i ponadnarodowej organizacji sui generis – Unii Europejskiej. Autor weryfikuje stanowiska państw członkowskich wobec przekazania na poziom wspólnotowy narzędzi polityki fiskalnej. W tym kontekście, przedstawione zostają wady i zalety (potencjalnej) wspólnej unijnej polityki fiskalnej, na których ocenę wpływają czynniki tymczasowe takie, jak kryzys finansowy. Starając się dokonać rzetelnej i kompleksowej analizy, autor odnosi się do aktualnej sytuacji gospodarczej i skutków kryzysu, jak również do przeszłych (rozpoznawanych od lat 70. XX w.) głównych wyzwań, osiągnięć i przeszkód w prowadzeniu zrównoważonej polityki budżetowej. Przyjęta przez autora metodologia opiera się na podejściu analitycznym, które umożliwia ocenę wspólnych działań państw członkowskich na rzecz ujednolicenia narodowych polityk fiskalnych oraz zbadanie „stosowności” przyjętych środków antykryzysowych. Ponadto, w celu przedstawienia różnorodności kultur politycznych, preferencji i wyzwań wynikających z wielkości gospodarek narodowych autor stosuje metodę porównawczą. Wyniki przeprowadzonej analizy wskazują, iż rządy państw członkowskich dostrzegają potrzebę większej elastyczności w negocjacjach nad ujednoliceniem polityk fiskalnych na poziomie UE i są w stanie ograniczyć swoją „fiskalną suwerenność” (video: osiągnięcia szczytów antykryzysowych). Niemniej jednak, „dalsze przekazanie kompetencji fiskalnych” czy „jedność fiskalna” nie oznaczają (przynajmniej na razie) całkowitego pozbawienia rządów narodowych kontroli nad sprawowaniem polityki fiskalnej.

Słowa kluczowe: polityka fiskalna – unia monetarna – kryzys finansowy – zarządzanie gospodarcze

Kody JEL: E62 (polityka fiskalna), E52 (polityka monetarna), F33 (międzynarodowe porozumienia i instytucje walutowe)