FISCAL INTEGRATION OR DISASSEGRATION IN THE EUROPEAN UNION IN THE COVID-19 CONTEXT?

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Abstract: *Recent events seem like a level 5 storm unleashed all over the face of the earth, more precisely a virus called COVID-19 has triggered a pandemic of gigantic proportions. Thus, in addition to the immediate medical and social implications, economic and fiscal-budgetary implications at the global level, but also at the European level, are likely to be much more serious than the illness itself. Therefore, the article mainly aims to articulate a series of questions and possible answers regarding the issue of fiscal integration in the European Union. The argumentation is mainly theoretical, and where possible and necessary figures will be provided to support the theoretical framework.*

Keywords: *Fiscal integration, European Commission, coordination, disintegration, European Union*
JEL Classification: *H, H12, N10.*

1. Introduction

In response to the Covid-19 crisis, the European Council recently adopted (14 April 2020) a series of proposals to amend the EU budget for 2020. These amendments provide for almost all remaining amounts from this year's budget (€ 3.1 billion) to be made available to Member States to combat the pandemic. If the proposals are approved by the European Parliament, then the EU budget will have overall commitments increased by € 3.57 billion, to € 172.2 billion and payments will be increased by € 1.6 billion, reaching a a total of € 155.2 billion[1]. At the same time, to combat the effects of the coronavirus, EU finance ministers have set aside half a trillion euros for a financial support package. It includes € 200 billion, which the European Investment Bank will provide to companies in the form of credit facilities and € 240 billion, which the European Stability Mechanism will make available for the governments.[2] Beyond direct medical measures to combat COVID-19, the European Commission has announced that the size of the Corona Response investment initiative will amount to € 37 billion, to support public investment in hospitals, labor markets and affected regions. The Commission has proposed extending the scope of the EU Solidarity Fund, including a public health crisis in its scope, to mobilize it for the most affected EU Member States, with funds up to 0, 8 billion euros. [3]

In this context, the sanitary, economic and fiscal measures to combat the coronavirus COVID-19 have led, in addition to concrete funding measures from the EU as a whole and EU Member States, to serious discussions on European integration and especially on fiscal integration.

But first, in order to be able to understand the concept of fiscal integration, we must first clarify the concept of integration and that of economic integration. Thus, integration involves the inclusion, but also the merging of elements, their reunion or incorporation in the same process to obtain a whole, so as to serve to a well-defined purpose (e.g. integration of production).

Therefore, integration involves: a) defining a goal, for example from a political point of view, building a federalist system of government, b) establishing the optimal level of integration or more precisely, how much "integration" is needed to achieve the goal,

[1] Source: https://www.consilium.europa.eu/ro/policies/eu-budgetary-system/eu-annual-budget/2020-budget/.
[2] Source: 1.https://www.weforum.org/agenda/2020/04/european-union-finance-fiscal-money-support-covid-coronavirus/.
[3] Source: International Monetary Fund, Fiscal Monitor, April 2020, pp.30.

because otherwise, exceeding the necessary and sufficient limit, the effect is adverse, c) the choice of the components necessary and sufficient to achieve the purpose and proper functioning of the system created over time (system sustainability) (eg Member States capable of achieving the purpose pursued - federalism), d) the choice of integration methods (eg monetary integration, fiscal integration, economic integration, trade integration, etc.), e) defining the integration order, the quantity and quality of components, the opportune moment of integration, thus so that the integration process is effective, f) dividing the integration process into phases, easily monitored, each with its time of implementation, so that the components and methods are perfectly calibrated with the desired integration phase to be achieved and in accordance with the following stages or phases (if they exist and is not the final integration phase) and with the aim of final phase to be achieved (in the case of the final integration phase).

According to economic theory, economic integration describes a complex process of intensifying economic interdependencies between different states of the world, so as to lead to a development of the interstate economy. In this sense, we can consider that the integration process, especially economic (including fiscal), can be in the following situations, which can be formulated according to the political decision and as phases of integration:

1) ***Disintegration or segregation/disassegration*** - in which the decision-makers' option is to reject integration, more precisely there is a vision of complete separation between the national and supranational levels,

2) ***Integration*** - in which the option of national decision makers is one of probing, experimenting with various and mixed forms of decision-making coexistence, e.g. mutual adaptation, assuming a horizontal integration (between components), but also a vertical one (between the national level and the supranational, optimally necessary in both directions: national - supranational, supranational-national),

3) ***Assimilation*** - in which the option of national decision makers is to give up their own goals and objectives and adapt to the level where national elements can no longer be distinguished from supranational ones, internal objectives being one and the same with supranational ones, without containing more aditional particular elements.

In this context, this article emphasizes the need to understand the phase or situation of integration we are in, the need to clarify key questions related to the direction of the European Union as a whole and EMU in particular, offering a number of proposals or theoretical solutions.

2. Literature review

Stopping or preventing wars was the starting point in the discussion about the need for the existence and cultivation of nation-states and especially of supranational states. Federalism (fiscal federalism - Samuelson, 1954; Oates, 1972; Bureau and Champsaur, 1992), functionalism and neofunctionalism (Lindberg, 1963; Haas, 1960 and Niemann and Schmitter, 2009) and intergovernmentalism (Hoffmann, 1966, 1974; Moravcsik, 1998) led to the articulation of theories of European integration, with its advantages and disadvantages. Multilevel governance (MLG) formulates, in a new approach, that the functioning and development of the European Union, and institutional incompleteness or fragmented reform is the cause of the failure of reforms. This failure in turn leads to the need to formulate a new common denominator established between the Member States, a denominator that will lead over time to a stronger, deeper integration.

In the context of the Covid-19 pandemic, the issue of their fiscal resources, pumped from the federal level to the Member States, amplifies the previous and repetitive demands of some theorists (e.g. Marzinotto, Sapir and Guntram Wolff, 2011) and practitioners on the involvement of supranational structures. However, it is unclear whether crises lead to a deepening of further integration or to a weakening of integration and certainly implies a different vision of the of states regarding the type of integration (Nicoli, 2018).

In this context, integration and fiscal integration permanently opens up areas of debate, requiring, in addition to the formulation of new theories, especially solutions, fast, urgent and practical for solving the problems that have arisen.

3. Methodology

Although abundant in theoretical debates and concrete information, the literature on the effects of COVID-19 in the economy and in the fiscal-budgetary sphere is still in its infancy. Thus, in the absence of a well-knit literature on this subject, but especially of the medical, economic, social and political developments in continuous motion, the article points out the need to formulate some questions, to systematize the problems regarding the fiscal integration in the EU. The approach is logical, theoretical and argumentative, with relatively limited statistical information, so that the theoretical approach is not overshadowed or obscured by constant motion reality.

4. Results

Theoretically, if we refer to taxation, we could talk about fiscal disintegration, fiscal integration or fiscal assimilation. For example, at EU level, the concept of fiscal union can be framed at the upper limit of fiscal integration towards fiscal assimilation. If we consider that both assimilation and disintegration are extreme phenomena, undesirable at European level, then the study on integration at EU level can only refer to integration or integration on several levels. We can thus analyze the phenomenon of decentralization - the removal of tasks from the regional level to the state level, but also the inverse phenomenon, of centralization, taking over tasks from the national level to the central level. Thus, we can speak of fiscal decentralization or fiscal centralization, between the Member State and the EU.

We can also talk about an integration between components, between countries, horizontally, but also about an integration between each component, each Member State and the central, supra-state level. The national component is not to be neglected, which in the context of fiscal integration can be divided between the territorial level, national regions or counties and the national central level. Transfers of the central national level and national territorial level can outline at the level of each state a certain fiscal integration, and by aggregation, these transfers can establish an average global level of all EU countries. However, this aggregation cannot outline the EU's capacity in this regard, as the EU budget is completely different from the amount of national budgets.

Another more efficient and relatively simpler way starts from the need to outline some characteristic features that are measurable or only qualitatively evaluable in order to be able to determine if we can talk about integration, and in our case, about fiscal integration.

Thus, fiscal integration involves:

1. *The existence of common institutions*, managed by the participating governments with clear attributions regarding the collection of taxes and their expenditure, practically the centralization of the decisions regarding the sharing of risks through transfers between states or from central regional level to national central level. In the event of a fiscal union at EU level, the European Council could have clear responsibilities for setting national spending and systematizing tax bases and rates, and even setting up a European Union finance ministry to develop and coordinate the common a fiscal policy.

2. *The existence of common regulations, laws, practices and policies* that clearly establish the functioning of fiscal integration. Although there is a Stability and Growth Pact (SGP) between euro area members designed to coordinate Member States' fiscal policies, its functioning mechanism leaves much to be desired, and the lack of sanctions for non-compliance with medium-term budgetary targets especially for strong EMU states, rather, it paints a dysfunctional reality of fiscal integration, exclusively based on the norms. At the same time, the Treaty on Stability, Coordination and Governance in Economic and Monetary Union (TSCG) (ratified and entered into force for 16 states since January 2013 and for the rest of the EU member states in April 2019) is an intergovernmental treaty introduced as a more strict version, with a set of common principles, of the Stability and Growth Pact. It should be noted that on April 1, 2014, the European Fiscal Pact (Compact) (EFP) was ratified by most EU member states. EFP has imposed stricter rules on government spending and borrowing, including automatic sanctions for breaking the rules. The Fiscal Compact imposes a balance or surplus for the Member States, the general national budget deficit requiring not exceeding the threshold of 3% of GDP and a structural deficit to be hold within the medium-term budgetary objective (MTO) of each country, which can vary between 1% of GDP and respectively not more than 0.5% of GDP, depending on not exceeding or respectively exceeding the 60% of GDP threshold for the public debt / GDP ratio. As defined in it, the Fiscal Compact aims to "strengthen the economic pillar of economic and monetary union", being binding on all euro area countries. It is true that the Fiscal Compact stipulates that in the event that a Member State goes through a period of significant recession, that State will no longer have the obligation of a fiscal correction during the recession, and will then gradually join the MTO provisions assumed. At the same time, the Fiscal Compact presents an institutional link with the European Stability Mechanism (ESM) in the sense that European support through the ESM is conditional on the prior implementation of the Fiscal Compact.
3. *Existence of common instruments* such as a transfer system, supranational taxation, debt management or a at least a part of them at supranational level (through common bonds, for example at EU level Eurobonds), a common health protection system, a common social protection system, therefore, the effect at the level of national states would be translated through the reduction/dispersion of asymmetric shocks and common constraints on loans under similar conditions. In the context of COVID-19, negotiations are extremely advanced towards such issues at EU level. It should be noted that there are already a number of tasks at EU level on setting consumption taxes (VAT) and tariffs on foreign trade, but the direct taxation system does not yet have a supra-national component.
4. *The delimitation of the attributions and the cooperation between the monetary and the fiscal-budgetary elements*, more precisely at the EU level between the Economic and Monetary Union (EMU) and the fiscal union, or its attenuated or advanced form of fiscal integration.
5. *The existence of a common budget, beyond or within the EU budget, especially for emergencies, which requires transfers from the EU level to the level of nation states*, with clear principles and mechanisms, simple and easy to implement, with automatic mechanisms or semi-automatic, so that, when the trigger conditions are met, the federal transfers take action quickly. Germany, through its Chancellor, suports the ideea of using the existing emergency instruments, but so far it is unclear how they work and especially the existence of a common vision in terms

of accessing these instruments (who, what, where, how can benefit from these pre-existing tools).

The features listed above can help us understand what steps might be taken. Thus, better fiscal integration in the EU would require stronger European institutions to properly manage the EU economy, and in the context of the COVID-19 pandemic, it could have been life-saving, with risks shared between Member States and the EU. In addition, fiscal-budgetary instruments, in the context of more accelerated fiscal integration, would require their diversification and refinement, above the level of the instruments provided by the nation-states and certainly well above the current, available level of EU instruments. Better sharing of fiscal responsibilities by shifting some of them to the federal center system could improve stabilization capacity nationwide. However, it is interesting, in analyzing here the disproportionate, asymmetrical vision between the implications (contributions) of the national state at federal / confederal level and the expectations (receipts) or benefits that the national state can receive from the federal one. Once the Member States openly discuss the mutual limits of this social contract, the criticisms of the institutional incapacity of the EU as a whole and of the Member States will no longer be the subject.

Thus, the COVID-19 crisis showed systematic shortcomings and political misunderstandings regarding the system of fiscal-budgetary solidarity at EU level, emphasizing that the only economic stronghold, and implicitly fiscal-budgetary, was established at the level of nation states, the EU lacking the necessary speed, strength and understanding in order to act quickly and in a coordinated manner. From this point of view, with or without the establishment of a fiscal union, the Member States, but also the EU, through its institutions, must understand that the fastest and most effective reaction force is "on the grass" or “at the bottom”, then and where the unwanted event it is produced, whether it is a pandemic, a natural disaster or a war. Moreover, the EU as a whole will not know and will never be able to understand all or at least most of the individual needs of the Member States, nor will it ever be able to cover them fairly for everyone. Simplified, imagine a parent with 27 children, each with his own particular needs of health, education, growth and development etc. Will he be able to offer everyone, simultaneously, the same treatment, except love? Of course, this presupposes a clear understanding of solidarity and "team" cooperation with involvement not only from the EU level at Member State level, but especially between them (the states). Also, the opposite effect, the support from Member States, implicitly financial and fiscal for EU, at least for certain non-negotiable projects, must also be unconditional.

In addition, we must understand and manage the aspect of particularities and rivalries, economical, political, social and historical between EU nations, namely rebalancing and repositioning the vision between southern Europe - lazy and disinterested and northern and central Europe - hardworking and permissive, East - primitive and easily dispensable and the West - prosperous and emancipatory. This translates into periodic variations, north-south and west-east, of economic and political conflicts that are inflamed by obvious oppositions, especially between the group of states Germany, Austria, the Netherlands and Finland and the southern flank: Italy, Spain, Greece and France. The solution is of course, to a warm response, an EU with institutions under a non-identity leadership within the member countries, but will a leadership outside the EU space be without non-identity and more seriously non-conflictual, non-divergent from the states EU members? Can the lack of identity of the EU leadership provide answers for the functioning or structure of the EU? But for the establishment of the Fiscal Union? Of course not! Therefore, the capital, labor, land, resources and economy of each EU Member State must be assessed similarly, without favoritism, without discrimination between weak and poor countries and strong, rich and credible countries. Only the past, the memory and the lack of partisanship can make it, more precisely, "a spiritually old generation", with a history of Christian solidarity, with a real, living history of the EU. In the absence of a "previous generation" (of a parent), a family consisting only of "children" or in our case of Member States, need the establishment of a hierarchy, with rights, but especially with responsibilities, crucial to the proper functioning of the EU. ***The true leader (or their group) is thus established mainly in terms of the ability to take almost full responsibility for everyone else.*** Only in this way can the EU's economic and fiscal-budgetary system have a chance to function properly. Only in this way, based on equal and fair principles for the distribution of intra- and inter-community loan and aid instruments, the EU could have a chance for survival in the near future.

The problem of fiscal integration and even European integration in general can also be raised from the perspective of the existence of a new Marshall Plan for economic recovery. If in the period 1947-1951 only the placement of approximately 2% of GDP managed to moderate the exposure to creditors and it founded the network of free international trade, but also a better economic and political coordination of the beneficiary European countries (Spagnolo, 2020), we can only imagine what could be the benefits of similar economic and political measures well coordinated at this time.

However, resources at EU budget are insufficient for a recent equivalent of this plan, amounting to 240-280 billion euros (Spagnolo, 2020), but in the context of the dramatic collapse of GDP, the plan should contain, in the opinion of experts, a couple of trillion of euros to save Europe from recession.

At the same time, in this context, we can discuss the plan of Mario Draghi, the former president of the European Central Bank. This plan aims to prevent the collapse of companies in the short term and save the market from long-term depression. The question is, however, whether this plan can, in the absence of a paradigm shift, in the absence of the definition and redefinition of European values, really bring economic salvation.

Here we can outline a number of key questions. Is the problem of supporting European economies in the competence of Member States or the EU? If the problem lies exclusively with the Member States, then many countries will not be able to bear this burden, dragging the whole world into their deadlock. If the problem is the responsibility of EU, then the European budget, long-term international financing with the European Central Bank (ECB) guarantee, the ECB's acquisition of coronavirus-induced government debt, a common mechanism for the coverage of extraordinary expenditures caused by pandemics, Eurobonds and many other solutions, can greatly alleviate losses and provide a speedy recovery of the EU. At the same time, the fiscal rules of the Stability and Growth Pact will have to be suspended until a robust recovery of EU economies, with extensions and tolerances for about 15 years.

At the same time, if this new coronavirus is a form of war, is it not necessary, as in the case of the Marshall Plan, to relieve mankind of excessive public debt?

Is it not necessary to formulate "war reparations" between capitalist countries, former empires, against those exploited in the old historical colonies? In this context, wouldn't fiscal integration, especially at EU level, mean a more or less (federalist) transfer of public financial capital to those who really need it?

Is there a need for greater fiscal integration at EU and at the world level or for disintegration? Disintegration seems to be the answer at the moment, but is it really the solution in the medium and long term?

In the context of an influx of health and environmental disasters, which occur more and more frequently in humanity, without discriminating against the place of apathy (a well-developed economy or a poor/ emerging one), the isolated, nationalist response is the correct answer to this kind of disaster? If the correct answer is yes, at the moment, in the short term and on a well-defined territorial area, the same is true for the spread? The answer to this question, at least until now, despite the closure of national borders, has proved to be no, or, at least, not enough. Globalization as a whole and especially the international migration of people and goods frequently demonstrate the inability of the world to maintain national "microcosms".

Can the closure of economic activities, the isolation, quarantine and almost exclusively statist management of the problems combat the medical, social, institutional and especially economic effects of crises (including pandemics)? Answer may be mixed, but the effects over time will clearly answer no. Certainly, the economic and fiscal-budgetary effects would be much more dramatic than the cause itself - the disease. Therefore today is much more difficult to manage the situation than if the isolation would have meant only a stricter control of personal hygiene in different social circumstances, especially at work and of course with the prohibition of unnecessary, risky activities as well.

Will the solutions have to be purely political, economic or fiscal-budgetary, requiering a deeper integration or disintegration, or will they require a dramatic change of mentality at all levels? The answer is, in my view, yes, there will be a need for a paradigm shift, mentality, lifestyle, business, state, economy, politics, culture, sports, environment, solidarity, cooperation… everything. A each new day on earth very diferent from what we have been experience before. Thus, pumping money, through the European institutions and especially through the ECB, through various European funds and instruments can alleviate the current situation, but the real solution is to change the mentality and not to pass the money from one pocket to another.

5. Conclusions

The solution is structural in nature, and especially arises from a change of mentality in which we have to give up to the consumerist, expansive, Western model of high consumption, increased productivity, massive injections of liquidity from central banks, as well as the existence of some high salaries etc. This model should focus on a sustainable social and environmental model, supporting the well-being and happiness (yes, happiness!) of the planet's citizens, in which the key word is moderation/normality. Thus, the salaries of civil servants and incomes should be designed to be sufficient for a decent living, covering the minimum or average consumption basket (providing in addition to the minimum basket the coveridge of some cultural and spiritual goods), and for private employment a legal framework at national or supranational level of normalcy, by imposing an upper limit.

Also, in crisis situations, the national or supranational state should intervene in subsidizing salaries, protecting jobs, business, and entrepreneurship should be viewed from the perspective of a real partnership with the state. Social entrepreneurship should be supported by laws and new fiscal visions. Investment should be rethought as a "non-negotiable cutting place ", especially in terms of massive domestic public investment in the health system, the education system, agriculture, transport infrastructure and trade cooperation and support.

At the same time, the nation-state must not be disregarded, but on the contrary, re-strengthened and redesigned, so as to serve not only itself, but also the region from which it comes, in our case, the European Union. In the absence of such vision redesigns, any type of economic, political and especially fiscal integration, remaining disarticulated discussions, without solutions for the future and especially without the capacity to prevent and mitigate a future crisis. Fiscal integration, in my view, will certainly involve an EU budget for 2021-2027 for growth and development between European member states, with the medical, environmental, agricultural and military areas adequately covered. But only Member States and EU bodies will be able to decide whether the future budget will be one of the past, of rigid fiscal rules, compacts and laws or a budget of long-term vision and development.

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