Gruppo Interparlamentare Italo-Tedesco

Fiscal Compact: Quale Futuro?

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INTERVENTO DI MARCO CAUSI

Eurozone needs a fiscal policy framework

There is a huge amount of policy and economic literature that make clear that a monetary union can not survive without a real Federal State and a Federal framework for fiscal policies

This is a point well known by our German friends, that have built and put at work the most advanced federalist experience in the Europe born after the tragedy of World War Two

An Europe that we support and we want to strengthen against nationalists' revival and populist defy, fueled by the deep social consequences of the Great Recession

But history tells us that in a Federation adopting the same money it is not sufficient a framework limited to the coordination of fiscal policies of the member States, like those actually ruling EU and the Eurozone (six pack, two pack, fiscal compact)

Eurozone needs a federal budget

History that I have in mind is the history of the greatest federal construction with democratic methods in the modern world, the United States. That adopted the dollar as a common money in 1785 but expected barely thirty years to have a federal budget

US arrived to this decision only after the 1812 war, the so called second independence war, after that a british army arrived from Canada destroyed the new capital, Washington, just built by the new republic. As we know, the new American nation, without a federal budget and so without an army, was saved by two facts: the british decision to concentrate all its military force against Napoleon in the European battlefields, and the unexpected victories of the southern army, made in prevalence from volunteers, gained by the general Jackson.

My hope is that EU, and in particular the Eurozone member States, will move towards a federal budget, and an European Minister of finance, without attending, as in the US experience, a war.

In this direction we have some important proposals by the High Level Group on Own Resources (HLGOR),directed by Mario Monti, that delivered his report in january to the European Parliament, the European Commission and the European Council.

Fiscal harmonization: let’s begin from banks

Early this year (January 28) the Commission put forward new proposals in the area of business taxation, aimed in the first place at countering corporate tax avoidance, in the framework of the BEPS initiative, but aimed also at progressing in the project of establishing a CCCTB (Common Consolidated Corporate Tax Base). In other words, the process of improving the coordination in corporate taxation is receiving new impetus

The banking sector is already subject to highly harmonized rules, particularly in the area of supervision, and the process of harmonization is speeding up under the building of the Banking Union. Hence, for the future it seems reasonable to propose a new resource based on a common taxation of the banking sector and limited to the Eurozone

The CCCTB on banks may be an initial step: in the end, a fully-fledged CCCTB on all European companies might be a good solution

Taxing banks and financial activities: some remarks

Fiscal sovereignty of member states would not be jeopardized: the proposal establishes a sort of revenue sharing between the national and the common level, on a tax (corporate income tax) that already exists in all member states. MSs will obviously retain full jurisdiction on the tax rate, they will only devolve part of the revenues to the upper level. In this respect, the proposal is very similar to the current arrangements for the VAT own resource.

As an alternative to the CCCTB, banks could contribute to the banking union and to other commitments of the Eurozone through a FAT (Financial Activities Tax), as proposed by the IMF. FAT taxes the gross margin, i.e., all remunerations, not just profits: in substance the tax base is value added. This feature reinforces FAT as a candidate for own resource: it would complement, for the banking sector, the VAT, which exempts financial services.

FAT could also be, as highlighted by the IMF, a valid and preferable alternative to the FTT (Financial Transaction Tax). The project of a European FTT is now under discussion under a proposal of enhanced cooperation carried out by 10 member states. Expanding the FTT project to all member states belonging to the Eurozone is extremely unlikely, in the light of the past and present discussions: countries that introduced a FTT, like France or Italy, experienced negative results, and this is an additional evidence that makes the FTT unfit as an own resource

How to use Eurozone fiscal capacity: Banking Union

In the HLGOR Report it is suggested that the potential fiscal capacity of the Eurozone based on a new own resource deriving from banking profits can be used in three directions

First, it can be targeted at financing the resolution mechanism and the deposit insurance scheme of the Banking Union, and to strengthen the capital endowment of the ESM, the European Stability Mechanism, within the political idea that “banks pay for banks’ errors and losses”

How to use Eurozone fiscal capacity: European unemployment insurance

Second, It is well known that in the euro area, due to the absence of exchange rate adjustments, real asymmetric shocks that hit countries under tight fiscal constraints produce adverse economic cycles that are difficult to manage with national traditional macroeconomic policies and that tend to produce effects in the medium-to-long term. The result is high cyclical and structural unemployment.

A common unemployment scheme, co-financed by EU and the member States, would greatly help to mitigate the adverse consequences of real asymmetric shocks, with a general positive contribute to the overall stability of the European economic and monetary area, that will benefits also the member States not directly hit by the adverse cycle.

How to use Eurozone fiscal capacity: National reform plans

Third, National reform plans play an important role in the stability pact of the Eurozone. They aim at improving structural aspects of the national economies, on the supply side and on infrastructures: they improve competitiveness and growth, with spill-over effects on other member states.

A new Fund aimed at assisting MSs in their national reform plans could be implemented. It could trigger agreed forms of co-financing, and could be devised with an incentives-disincentives mechanism: if a member states fails to fulfill reforms, the co-financing would be curtailed or cancelled; if a member state puts in place additional reforms, or if it proceeds in the implementation of agreed reforms faster than planned, it could receive an extra bonus.

This mechanism may also have a strong European value added, in encouraging member states to carry out national reforms needed to strengthen competitiveness and growth of the whole area.