ROLE AND PARTICULARITIES OF NATIONAL FISCAL POLICIES FROM THE EURO AREA

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Abstract. *The fiscal policies of different European countries is undoubtedly the subject of numerous controversies, starting from the effective use of fiscal policy as a means of acquiring money and resources, and aiming at meeting the social or collective needs.*
In this context, the performance itself requires multiple approaches due to the optimal currency area criteria and their application in the countries included in this space or due to the complex functions of the fiscal instruments within the euro area, namely the role of the national fiscal policies within the euro area.
The single market correlated with the euro currency generates a process of redefinition of the fiscal policy without ignoring its special features, but pinpointing the adjustment of common monetary policies to the national fiscal policies.
Therefore, the purpose of this study is to identify and argue the difficulties, the effectiveness as well as the consequences of a fiscal union based on "the role and features of the national fiscal policies in the euro area".

Keywords: *the euro area, optimum currency area, fiscal policy, budget deficit, inflation*

1. Introduction

The vision on European integration and on Europe in general, as conceived by Jean Monnet, presupposes the fact that Europe becomes an area which has to respect the freedom and identity of all it peoples.

Once the Maastricht Treaty has come into force, there is a new stage which can be considered a highly superior means of economic collaboration among the member countries as an answer to the complex and different problems that the states of the world are facing, with deeper international interdependencies which require adequate economic collaboration. We can say the fact that this process does not equal in the consequences of national individuality loss but the finality of the economic progress in each country.

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In order to come to the finality of the economic progress, the economies have to converge, aiming at obtaining the best performances regarding inflation, interest rates and deficit, becoming thus the logical consequences of the measures implemented for the creation of the new entity called „Euro area”.

2. The concept of Euro area

During time there has been formulated a series of definitions regarding the implications of the Euro area, considered optimal monetary zone.

In this context, there can be noticed the contribution brought by Robert Mundell, who elaborated a series of studies and analyses regarding the optimal monetary dynamics in general. In his vision, the optimal monetary zone is presented as „a set of regions with high migration tendency in order to ensure the full occupation when one of the regions is under a state of shock”[2].

Other experts in the field have analyzed this aspect from different criteria such as the mobility of capital, regional specialization and existence of a common fiscal system.

In Frankel’s opinion – researcher who studied this concept – the optimal monetary area (OMA) represents „the optimal region for the existence of sole currency and monetary policy. Frankel was also the one who supported the theory of endogeneity of the OMA, saying that „a monetary unification can lead to the synchronization of economic cycles, elimination of exchange risks and transaction costs and thus an optimal monetary area offers numerous advantages for the adherent countries to a monetary union”[3].

Nevertheless, the analyst who succeeded in defining the concept in a correct and real manner was Mckinnon. He defines the optimal monetary area as „the area where sole currency and flexible currency exchange constitute the best solution in reaching three major objectives: full occupation, balance of payments equilibrium and stability of intern prices”[4].

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[2] M. Sebea, A. Ionescu, *Realization of the Economic and Monetary Union and the need of convergence*, IER study collection, no. 18, Bucharest, 2006, p. 8;

[3] M. Sebea, A. Ionescu, *Realization of the Economic and Monetary Union and the convergence need*, IER studies collection, no. 18, Bucharest 2006, pp. 8-9;

[4] R. I. Mckinnon, *Optimum Currency Area*, American Economic Review, 53, 1963, Cited by coord. Cerna S., „International monetary and financial economy”, Universitatea de Vest Printing House, Timişoara 2005, p. 120;

From the analysis derived of the researchers' opinions, we can understand the fact that the inclusion of the optimal monetary area within the process of monetary integration presupposes to respect the properties necessary for the existence of the optimal monetary union and the establishment of efficiency of national fiscal policies from the Euro area evaluated according to the facile degree, fiscal pressure degree (comparing the public income to the gross domestic product), in a context where they can be considered an instrument for the adjustment of economic shocks.

3. The role of national fiscal policies in the Euro area

After successfully following the necessary stages for the adhesion to the Euro area which involves both following the Maastricht criteria and planning and elaborating a set of measures at state, private and population level, it has become the „socio-economic test".

In order to determine „the role" played by the fiscal policy in the Euro area, this area has been analyzed in most cases from the public finances approach (and fiscality in general) on one hand and public budget on the other hand. The public budget is considered the main intervention instrument for the state in economy.

Thus, the existence of instable fiscal policy in the Euro area determined a re-acknowledgement of full engagement of the European Council regarding the sustainability of public finance. Within this context, anti-cyclic fiscal policy is desired. It must have as consequence a reduction of the existing deviations in the national economies of the Euro-system states.

The action of the automate balancer, financial assistance for national authorities and the further measurements adopted until present day are a major burden for public finances in numerous countries of the Euro area. As a result, all these measurements have to be reversed in due time in order to promote equity in the filed of public income, imposition techniques and prevention of subjectivism regarding taxpayers and reduction of „fiscal sacrifice". In other words, there is the elimination of „fiscal pressure" and encouragement of „fiscal competition" without deepening the „feeling" of fiscal relaxation and increment of public debt and without compromising the trust in public finance sustainability and decrease fiscal stimulus efficiency.

As a result, we have to highlight the influence of fiscal pressure over gross domestic product per inhabitant as a result to the question: To which extent does the increment of fiscal sacrifice and pressure depend on the fiscal policy measures underdone by the governors?

The analysis of fiscal pressure over GDP/inhabitant in some countries of the Euro area (table 1) highlights the fact that the highest value is recorded in Luxembourg, Germany, Belgium and Holland.

Table no. 1

Fiscal influence over GDP/inhabitant

COUNTRY	FISCAL INFLUENCE OF GDP/INHAB. (%)
Austria	58,67
Belgium	61,26
Cyprus	–
Finland	51,47
Estonia	–
France	57,93
Germany	64,1
Greece	30,0
Ireland	75
Italy	55,77
Luxembourg	≈70
Malta	26,57
Holland	60,55
Portugal	27,94
Spain	40,68
Slovenia	23,5
Slovakia	10,68

Data source: Popescu C., Ciucur D., Raboaca G., Iovan D., *Modeling of Economic Growth under Fiscal Impact.*

There are also highlighted:

- the Euro area countries with low GDP per inhabitant that have a fiscal policy with a high degree of fiscality and which, as a result, cannot be considered a constraint for economic growth;

▪ the Euro area countries that exercise a fiscal policy based on integration vision regarding the relationships between general objectives and fiscal means used or possibly used.

According to economic theory, the incidence of fiscal instruments follows the examination of the „means on which the fiscal burden and its effects over labor, economy, prices, stocks, production and consume are divided"[5]. In this respect there can be noticed the importance of the fiscal mechanism characteristic to Euro system which refers to methods, techniques and instruments which ensure the dimension, arrangement and perception of taxes, income taxes and social contributions.

Thus, within the Euro area there can be distinguished the following fiscal instruments:

▪ the use of a low number of identification both for direct and indirect taxes, regarding the means of identification for payments and taxes (Austria, Holland, Spain, Germany, Greece). This method offers a series of advantages amongst which there can be mentioned: a simple and easy means of identification of business partners from different states of the Euro area and beyond this area; it does not create confusion in the fiscal practice and there can be underdone an immediate distinction of the existing taxpayers in the community area as different from those of the countries beyond this area.

▪ the level of administration of major taxes, income taxes and social contributions types is determined by using the mechanism of cumulative deduction without tax. This system is functional in countries such as Austria, Germany, Ireland, Italy, Luxembourg, Holland, Slovakia, Cyprus and Slovenia;

▪ the existence of a system based on non-cumulative deduction functional in states as Belgium, Greece, Portugal, Spain and Malta.

„The main reflection instrument of fiscal policy is the public budget. Its role is that of means of carrying out a bookkeeping-like accounting system for the estimated income and authorized expenses"[6]. The means of budgetary approach and practice acknowledge a major evolution, resulting in a multilateral nature of the budget and budgetary policy.

At European Union level, the major financing source of the budget is a resource based on gross domestic product of the member states which exceeds the other sources such as custom taxes; value added tax and

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[5] P. A. Samuelson, W. D. Nordhaus, *Political economy*, Teora Publishing House, Bucharest, 2000, p. 386;

[6] A. Duca, *Miraculous taxation triangle*, ASE Publishing House, Bucharest, 2007, p. 71;

agricultural takeoff. In 1988 the source of the gross domestic product represented 11% of the European Union financing by comparison to the 28% deriving from custom taxes and agricultural takeoffs and 57% VAT. In 2013 there is estimated the fact that NGI (national gross income) will represent 74% of the European Union financing by comparison to 13 % deriving from custom taxes and agricultural takeoffs and 12% deriving from the resource of VAT[7].

From the analysis of the general budget construction, from the pint of view of income and expenses between 2000-2009, there are highlighted a series of aspects[8], amongst which:

a) the extent of the general budget income in GDP is superior in the countries form the Euro area but close to the average budget in the European Union 27, oscillating to the value of 45%, with a reduction tendency after 2006 and much more evident in 2009, as a result of financial crisis;

b) the extent of the general budget expenses in GDP is superior in the countries of the Euro area but close to the average budget of the European Union 27, oscillating between 45%-51% with two minimal levels in 2000 and 2007 and a maximum level in 2009 as an effect after the financial crisis.

From this point of view, at the level of the member states there have to be taken a series of measures with a sole objective of reducing and maintaining the public deficit of 3% of GDP in current prices by using fiscal and budgetary instruments with the purpose of extending the Economic and Monetary Union.

It is necessary to enforce these measures due to the economic crisis in the European area. Thus, „after 2008 several countries have recorded maximum levels in the growth of public debt (Greece 126,8%; Italy 116%, France 78,1%, Germany 73,4%; Hungary 78,4%; Portugal 76,1% etc.), which made the average Euro areas reach a peak level of 79,2% in 2009, while the average level in EU reach a level of 74%, much more than the Maastricht criterion”[9].

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[7] Commision of European Communities, *Budget reform for a changing Europe*, public consulatation paper regarding the budget revision 2008/2009, Bruxelles, 2.09.2007, http://ec.europa.eu/budget/reform/issues/article_5959_ro.htm;

[8] E. Pelinescu, C. N. Stănică, *Evaluation of the fiscal policy role in fighting economico-financial crisis and ensuring the conditions imposed by the integration to the Euro area*, PIM Publishing House, Iaşi, 2011, pp. 70-73;

[9] E. Pelinescu, C. N. Stănică, *Evaluation of the fiscal policy role in fighting economico-financial crisis and ensuring the conditions imposed by the integration to the Euro area*, PIM Publishing House, Iaşi, 2011, p. 78; A

For the Euro area countries, the European Economic and Social Council proposes that „in the short term, immediately and until the economic convergence between the member states, there has to be used a double system, with descending and ascending systems in order to consolidate and complete the efforts meant to reestablish budgetary sustainability in the Euro area (highly affected by recession) by introducing the flexibility necessary elements in a planned and well regulated way”.

The convergence accomplishment has to be based on:

▪ the obligation of assumption for the Euro area countries for avoiding excessive debt and deficit by rapport to the deficit value of 3% from GDP and maintaining a cog of 60% from GDP for the public debt;

▪ highlighting annual budgetary equilibrium which considers debt as an indicator for long-term fiscal sustainability;

▪ the need of detailed macroeconomic evaluation and evaluation of structural disequilibrium which has a negative impact over competitively[10];

▪ the growth of public finance quality by evaluating the structure and efficiency of public expense.

Without a sustained effort for the accomplishment of these „reference values” from every state belonging to the Euro area, the budgetary convergence is harder and harder to accomplish although there is desired a rapid convergence between of the countries. This convergence is highlighted by the budgetary equilibrium at national level, the equilibrium of specific needs for restructuring and/or growth of investments as means for growing budgetary resources, even if these operations need to be supported by budgetary interventions.

Regarding the fulfillment of the criterion for the inflation rate, which must not exceed 1,5 average percentage of the three countries with the lowest inflation rate, it involves a high degree of convergence of monetary policy and is strictly interdependent with the „role and particularities of national fiscal policies of the Euro area”, as it can be considered the cause of the existing common fiscal policy and the reason for the decline in performance in the fiscal field within the Euro area.

This macroeconomic phenomenon has deep implications regarding the development and stability of the economic and social environment, a major monetary-real disequilibrium, materialized in a glut of the circulating currency and general growth of prices.

The causes that may generate inflation are multiple starting with the existence of ungrounded salary policy based on economic criteria, the rapid

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[10] Regulation proposal of the European Parliament and Council regarding executing measures in order to correct excessive macroeconomic desequillibrium in the Euro area;

amortization of permanent capital, growth of public debt costs and ending in excessive fiscal pressure.

In some Euro area countries, the fiscal system regards the taxation of nominal and not real capital. In this situation there is recorded an acceleration of inflation with consequence in the growth of nominal interest rate and diminution of real income obtained from savings, after taxation.

As a result, „the high inflation rates” have negative consequences on the remaining real income after taxation due to disequilibrium. This fact triggers a series of monetary, fiscal and budgetary measures with the purpose of reducing inflation and their elimination.

In order to recognize the value and to reduce the negative consequences of inflation, the economic practice and theory have tried to establish its quantity using the consumption price index. This index was used by all member states of the European Union and called the harmonized index of consumption prices (HICP).

In this respect, HICP represents the instrument for inflation measurement used by the Council of governors in order to define and establish prices in the Euro area as a whole in quantity measurement.

According to the latest data, the monetary tendency in this field supports the idea according to which inflation pressures and risks are going down in the Euro area (figure no. 1).

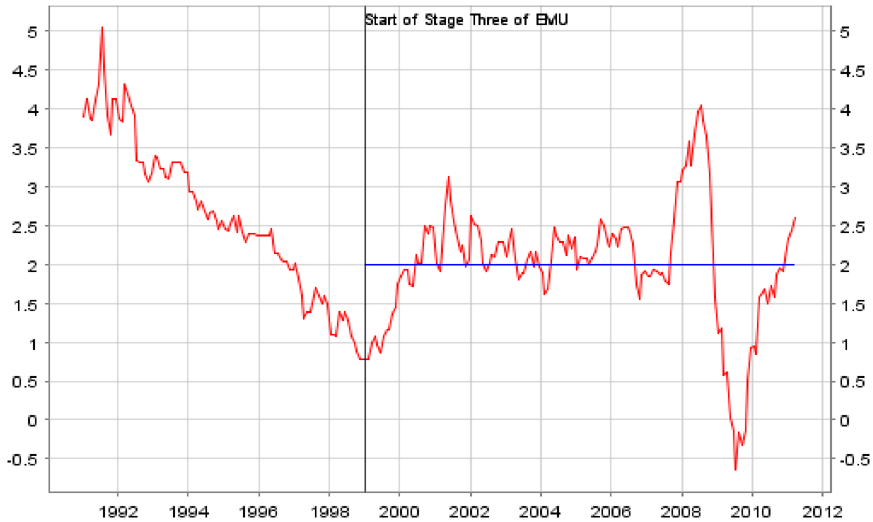

Figure 1. Inflation in the Euro area.

Source: Euro-stat. Data before 1996 are estimated without taking into account a harmonized national base of consumption price index.

The analysis of the graphic form figure 1 highlights the fact that in 2010 inflation maintained fewer than 3%, as it has been imposed by the convergence criteria. The inflation criterion recognizes the importance of this phenomenon in modern economies and the fact that the insurance of price stability represents the most efficient means of supporting – by monetary and fiscal policies – the general desiderate of the long run economic growth.

The maintenance of these limits has been underdone using monetary, fiscal and interventional measures in order to extinguish this phenomenon. Some of these measures were: maintenance of a balanced salary level, growth of direct taxation in parallel to the reduction of indirect taxation, the reduction of public expenses, limitation of the circulating currency, etc.

An index which highlights the impact of fiscal policies over inflation and its role is the fiscal animus. According to the opinion of the Romanian National Bank, the positive value of this index coincides with a relaxing fiscal policy with effects on inflation „in a situation when deficit is descending"[11].

4. Conclusions

The analysis of the role and particularities of national fiscal policies from the Euro area leads to the following conclusions:

– the process of fiscal integration of the Euro area countries represents an example of total integration by the means of which the different national economies desire to form a new economic identity, vaster and more equilibrated, substituting the component elements[12];

– after the economy support measures, especially during the crisis period, there have been discussed the limitations of the Euro area where the monetary and fiscal policies are not integrated. In this respect, one can notice the need for a unitary fiscal policy as in the case of the monetary policy.

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[11] http://www.bnr.ro

[12] André Marchal *L'Intégration territoriale* , Press Univeritaires de France, Paris, 1956, p. 7;

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