THE POTENTIAL FUTURE SHAPE OF THE EU BUDGET AND INTEGRATION PROCESS IN THE EUROPEAN UNION

POTENCJALNY PRZYSZŁY KSZTAŁT BUDŻETU ORAZ PROCESU INTEGRACYJNEGO W UNII EUROPEJSKIEJ

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Abstract

The last economic crisis which started in 2007 revealed structural weaknesses in the functioning of the eurozone and questioned its viability in the long term unless its shape changes. It is often emphasized that the monetary union cannot exist in the long term without economic and fiscal union; consequently, some reforms in the direction of fiscal federalism and a bigger EU central budget seem to be crucial to ensure sustainability of the euro area.

The aim of this article is to present the main weaknesses in the eurozone's construction as well as general rules and shortcomings in the functioning of the EU budget. The article indicates the potential development of the integration process in Europe and its possible impact on the EU budget and economic governance.

JEL Classification: E61, E62, H61, H72
Key words: EU budget, fiscal policy, economic governance, EU governance, fiscal federalism

Streszczenie

Ostatni kryzys gospodarczy zapoczątkowany w 2007 obnażył słabości strukturalne strefy euro i zakwestionował jej dalsze funkcjonowanie bez wprowadzenia istotnych reform w jej konstrukcji. Często podkreśla się, iż w długim okresie unia walutowa nie może istnieć bez unii gospodarczej i budżetowej, dlatego też reformy w kierunku federalizmu fiskalnego i powiększenia budżetu UE wydają się być kluczowe dla zapewnienia stabilności strefy euro.

Celem artykułu jest przedstawienie głównych słabości w konstrukcji strefy euro oraz głównych zasad i niedociągnięć w funkcjonowaniu budżetu UE. W artykule autor wskazuje na potencjalny rozwój procesu integracyjnego w Europie oraz jego prawdopodobny wpływ na budżet UE oraz zarządzanie gospodarcze.

Słowa kluczowe: budżet UE, polityka budżetowa, zarządzanie gospodarcze, federalizm fiskalny

1. MAIN WEAKNESSES OF THE EUROZONE FRAMEWORK

One of the main weaknesses of the eurozone's institutional framework is the fact that it is the monetary union without the economic union. While the monetary policy is conducted at the central level, the conduct of the economic policy was left in national competences. Such a shape of the euro area framework resulted mainly from political decisions; existence of a central fiscal capacity (presented in the Werner report) was rejected due to national interests. To guarantee an appropriate level of economic governance the objectives of national economic policies must be consistent with the objectives of the European Union (EU) as a whole[1]. The fiscal policy in the EU was also not centralized. The member states define and implement their own fiscal policies subject to common rules (they are obliged to avoid excessive government deficits), which are monitored and assessed by the European Commission (EC). The construction of the eurozone seems to be incompatible. On the one hand, the member countries are sovereign in fiscal policy making, on the other, the Stability and Growth Pact (SGP) imposes limits on the fiscal policies and constrains the national sovereignty. The further shortcomings in the eurozone's construction are delegation of the banking supervision to national authorities as well as lack of a central crisis management mechanism. One can conclude that problems of the euro area countries with ensuring sound public finances are in great extend due to the achieved level of integration-the monetary union with incomplete economic and decentralized fiscal union[2].

The current reforms of the economic governance in the EU (the European Semester, the Euro Plus Pact, the "six pack" reforms, the European Stability Mechanism) go in the federal direction and it seems that the deeper integration and reforms in the direction of fiscal federalism, increased EU central budget and European government would be a solution for enhancing the stability of the eurozone. However, the member states would have to accept the reduction of their national sovereignty and ratify changes in the Treaty, what surely would not be easily accepted by all EU countries. The other solution could be to strengthen the fiscal discipline at the national levels by adopting by all eurozone member states strict procedures and rules guarantying fiscal discipline. Nevertheless, such a solution would also not be warmly welcomed and voluntarily accepted without changes in the Treaty[3]. But turbulent times favor changes, so maybe the transformation of the existing eurozone framework towards deeper integration- fiscal federalism and a central budget is not as impossible as before.

2. THE EU BUDGET FUNCTIONING-GENERAL RULES

The basic role of the budget is implementation of the fiscal policy and its transfer to regions which are at different stage of development. The budget's main functions are allocation, redistribution and stabilization. It has to be big enough in comparison to the domestic product to be able to exert impact on movements in the economy, fulfill its redistributive function and create prosperity in the given state. Additionally, the fiscal and monetary policies should be coordinated jointly in order to move the economy towards a given direction. The EU budget does not fulfill the above mentioned conditions due to the specific political and economic environment in which it exists. It is able only partly, via the cohesion policy, to fulfill its redistributive and allocative function, whereas it does not possess any features to stabilize cyclical trends.

The main differences between a "classical" national budget and the EU budget are:

[1] Article 119.1, Treaty on the Functioning of the European Union (TFUE), consolidated version, Official Journal of the European Union, C 115/47, 9.05.2008, p.50.

[2] Bič J., Economic governance in the UE and context of the economic and financial crisis, SGIR Conference in Stockholm, 2010, http://stockholm.sgir.eu/uploads/Bic-paper.pdf.

[3] Wyplosz Ch., Happy 2011?, 5 January 2011, [online, access 20.11.2011], http://www.voxeu.org/index.php?q=node/5986

- the EU budget is relatively small as referred to the size of the economy, it represents ca. 1% of the gross national income (GNI) of the EU
- it is a balanced budget, in which revenue must equals expenditure (article 310 of the TFUE)
- the revenue and expenditure sides of the EU budget are different from those of national states, e.g. the EU budget has no classic tax revenues[4].

The annual EU budgets are based on the Multiannual Financial Framework (MFF), which is an interinstitutional agreement between the European Parliament (EP), Council and the EC. MFF sets for the duration of at least 5 years the annual upper limits for each heading in the annual budgets and fixes an overall annual limit on payment and commitment appropriations for each category of expenditure what ensures a long-term expenditure planning. MFF improves the budgetary procedure, enhances budgetary discipline and agrees on the medium-term budgetary priorities for the coming period[5]. Based on the MFF and the budget guidelines for the coming year the EC prepares the draft budget which is submitted to the Council and EP, whose role is to amend and adopt it. If there is a disagreement regarding amendments between the institutions, a Conciliation Committee comprising of representatives of the Council and EP is assigned with the task to prepare a joint text within 21 days subject to approval of the Council and the EP. Even if the joint text is rejected by the Council, the EP may adopt the budget. If both institutions do not accept the joint draft, the budget is rejected and a new draft budget must be submitted by the EC. The EC is responsible for the budget implementation; however, in practice ca. 76% of the budget is spent under shared management with the EU countries, which in fact manage expenditures. In order to ensure a proper management of funds regular evaluations are implemented. The EC is obliged to recover all amounts unduly paid no matter if resulting from error, irregularity or deliberate fraud. Also the governments of the EU countries are responsible for protecting the EU financial interests; they cooperate with the EC and the European Anti-Fraud Office[6].

In accordance with the article 311 of the TFEU the budget should be wholly financed from own resources, in reality they account for 99% of the budget and cannot exceed the 1.23% of the EU's GNI. The remaining 1% of the budget revenues is supplemented by other sources i. a. by surplus from the previous year. The annual budget's total revenue must equal total expenditure. However, in practice outturns of revenue and expenditure often differ from estimates. There is usually a surplus, which reduces the EU own resources' payments in the coming year.

Below the categories of the own resources:

1) ***traditional own resources (TOR)-*** mainly customs duties charged on import of products from non-EU countries (customs rates based on the Common Customs Tariff) and sugar levies, they bring approximately 13% (forecast for 2011)[7] of the total revenue, TOR are directly accrued to the EU budget after deduction of an amount of 25% kept as collection costs by the member state in which the import takes place

2) ***the resource based on a value added tax (VAT)-*** the standard percentage is levied on the harmonized VAT base for each EU member state, it accounts for 11% of the total revenue. In order to avoid that the less prosperous countries pay

[4] Simovic H., The European Union Budget, [online, access: 26.11.2011], http://www.ijf.hr/eng/FTP/2005/3/simovic.pdf, p. 1-11.
[5] European Parliament, [online, access 20.11.2011], http://www.europarl.europa.eu/parliament/expert/displayFtu.do?language=en&id=73&ftuId=FTU_1.5.2.html
[6] The European Union budget at glance, European Commission, Luxembourg 2010, p. 8-13.
[7] European Commission[online, access: 21.11.2011], http://ec.europa.eu/budget/explained/budg_system/financing/fin_en.cfm

a disproportionate amount to their contributive capacity (since consumption and VAT tend to account for a higher percentage of the national income in countries with relatively lower level of prosperity), the VAT base to be taxed is capped at 50% of each member state's GNI. Since 2007 the uniform rate of call of the VAT own resource is fixed at 0,3%, however, for the period 2007-2013 some countries benefit from rebates i.e. the rate of call of the VAT own resource for Austria is 0,225%, for Germany 0,15%, for the Netherlands and Sweden 0,10%.

3) ***the resource based on gross national income (GNI)-*** a standard percentage rate is levied on the GNI of each member state. Although it is used to balance the budget revenue and expenditure, it is the main source of the budget's revenue accounting for 75% of the total revenue. In 2010 the rate of call of GNI was 0,7488%. In the years 2007-2013 the Netherlands and Sweden received a gross reduction in their annual GNI own resource contributions (605 and 150 million euro in constant 2004 prices). This reduction is financed by the remaining EU countries.

Apart from the above mentioned own resources, the budget has also other sources of revenues like taxes on the EU staff remunerations, fines on companies that breach competition law, contribution from non-EU countries to some EU programmes, interest on late payments or repayments of the unused EU financial assistance. These revenues amount to ca. 1% of the total EU budget

Since the UK accession to the EU the country was the net payer to the EU budget, consequently, it requested a corrective mechanism to reduce its contribution. The so called "UK rebate" was introduced in 1985, according to it the UK is reimbursed by 66% of its budgetary imbalance measured as the difference between its contribution and amount which it gets back from the EU budget. The cost of this correction (in 2010 it amounted to 3 563,7 mln EUR) is covered by the other 26 member states based on each country's share in the total EU GNI, however, the share of Germany, the Netherlands, Austria and Sweden is reduced to 25% of its normal value.

In 2011 the EU budget amounted 126,5 bln euro (1,01% of the EU-27 GNI), and the draft budget for 2012 represents 132,7 bln euro in payments (1,01% of the EU-27 GNI), what is an increase of 4,9% in absolute terms in comparison to the previous year. Although in the absolute terms the EU budget seems to be large, in relative terms it represents only 1,01% of the EU-27 GNI[8]. Funds of the EU budget go to projects reflecting priorities of the EU set for the given time. According to the principle of the subsidiarity the EU budget finances projects in these policy areas on which all EU countries have agreed to act at the central level. When analyzing the percentage of expenditure to the total budget in 2011 it can be noticed that the majority of money is spent on the cohesion policy (45%) and the common agriculture policy (42%)[9].

In the table 1 the operating budgetary balances in 2008-2010 (difference between the operating expenditure, without administration allocated to each EU country, and the adjusted national contribution of each member state) are presented. In 2010 the biggest net beneficiary in absolute terms was Poland (8 427,5 mln EUR), the second much smaller sum was received by Spain (4 100,9 mln EUR). The next recipients were Greece (3 597,4 mln EUR) , Hungary (2 748,4 mln EUR) and Portugal (2 622,6 mln EUR). In relative terms (operating budgetary balance as the percentage of GNI) the biggest beneficiaries were Lithuania (5,03% of GNI) and Estonia (4,86%). Next on the list were Latvia (3,67%), Hungary (2.94%) and Bulgaria (2,55%).

[8] Budget 2012 in Figures, European Commission, [online, access: 24.11.2011], http://ec.europa.eu/budget/figures/2012/2012_en.cfm

[9] European Commission, [online, access: 26.11.2011],http://ec.europa.eu/budget/figures/2011/2011_en.cfm

Germany with its operating budgetary balance amounted at - 9 223,6 mln EUR was the biggest net payer of the EU budget in absolute terms in 2010. The next positions were taken by United Kingdom (-5 625,9 mln EUR), France (-5 534,8 mln EUR) and Italy (-4 534,0 mln EUR). When taking into account the percentage of the GNI the contributions to the EU budget were the biggest burden for Belgium (0,41% of GNI), Germany (0,36% of GNI) and Sweden (0,34% of GNI). While analyzing the data presented in the table 1 one can make conclusion that the richest countries in the EU are generally the biggest EU budget payers (in relation to their GNI), whereas the new member states are net beneficiaries. However, the operating budgetary balance is not a good indicator of all benefits gained from the EU policies. It does not include entire advantages resulting from the EU membership, it is only the accounting presentation of financial costs and profits deriving from the EU budget.

Table 1: Operating budgetary balances 2008-2010 (excluding administrative expenditure and TOR, and including UK correction)

	2008		2009		2010	
	mln EUR	% GNI	mln EUR	% GNI	mln EUR	% GNI
Belgium	- 720,6	- 0,21	- 1 663,9	- 0,49	- 1 466,4	- 0,41
Bulgaria	669,6	1,98	624,2	1,83	895,5	2,55
Czech Republic	1 178,0	0,83	1 702,5	1,32	2 079,3	1,53
Danemark	- 543,2	- 0,23	- 969,5	- 0,43	- 615,3	- 0,26
Germany	- 8 774,3	- 0,35	- 6 357,5	- 0,26	- 9 223,6	- 0,36
Estonia	227,4	1,49	573,0	4,23	672,7	4,86
Ireland	566,1	0,36	- 47,5	- 0,04	803,9	0,64
Greece	6 278,7	2,74	3 121,0	1,37	3 597,4	1,61
Spain	2 813,2	0,27	1 181,7	0,11	4 100,9	0,39
France	- 3 842,7	- 0,20	- 5 872,7	- 0,31	- 5 534,8	- 0,28
Italy	- 4 101,4	- 0,27	- 5 058,5	- 0,34	- 4 534,0	- 0,30
Cyprus	- 17,7	- 0,11	- 2,3	- 0,01	10,6	0,06
Latvia	407,0	1,78	501,5	2,51	674,2	3,67
Lithuania	842,6	2,70	1 493,3	5,53	1 358,4	5,03
Luxembourg	- 22,1	- 0,07	- 100,2	- 0,37	- 41,9	- 0,14
Hungary	111,7	1,12	2 719,4	3,08	2 748,4	2,94
Malta	30,0	0,53	8,6	0,16	52,9	0,91
Netherlands	- 2 678,2	- 0,46	117,7	0,02	- 1 833,1	- 0,31
Austria	- 356,4	- 0,13	- 402,1	- 0,15	- 677,0	- 0,24
Poland	4 441,7	1,25	6 337,1	2,12	8 427,5	2,47
Portugal	2 695,1	1,63	2 150,7	1,33	2 622,6	1,57
Romania	1 581,0	1,16	1 692,5	1,46	1 245,2	1,03
Slovenia	113,8	0,31	241,9	0,70	424,1	1,19
Slovakia	725,6	1,15	542,1	0,87	1 349,6	2,07
Finland	- 318,5	- 0,17	- 544,2	- 0,31	- 300,2	- 0,16
Sweden	- 1 463,1	- 0,42	- 85,6	- 0,03	- 1 211,4	- 0,34
United Kingdom	- 844,3	- 0,05	- 1 903,3	- 0,12	- 5 625,9	- 0,33

Source: EU budget 2010 Financial Report, European Commission, Luxembourg 2010, p.75

3. SHORTCOMINGS OF THE CURRENT FINANCING SYSTEM

The EU budget is the only centralized instrument for the implementation of the common fiscal policy in the EU, but it finances a limited number of the common EU policies because of its scope -ca. 1% of the EU GNI. Typically a federal budget accounts for more than 10% of GNI, as a result, irrespective of political or economic arguments some categories of public spending cannot be assigned to the central EU level as long as the size of the EU budget does not increase.

The EU budget is not suited to the emerging demands of the expanding EU and it plays an unsatisfactory role in the economic governance. A deep reform of its size and structure seems to be crucial. Moreover, in the vast part it is financed by direct contributions from member states rather than own resources. In the current budget the GNI-based resources accounting for more than 70% of the EU revenue dominate, whereas the own resources constitute only 13%. It means that the demand on the GNI-based national funding fluctuates to meet the expenditure from the EU budget. As opposed to national governments, which must seek political acceptance to raise the budget's revenue, the EU does not face a financing constraint and the fund raising of the EU budget is not of the primary order during budgetary negotiations[10]. Apart from this, the "juste retour" approach of the budget assessment is highly criticized. The EU countries are excessively concentrated on the net accounting balances, what undermines solidarity among them. Additionally, numerous rebates and corrective mechanism make the system unclear and unfair. The well-off countries benefit from rebates, which must be paid by the poorer ones. It is difficult to determine who is in reality burdened by the EU budget, and financial benefits cannot be so straightforwardly attributed to the specific EU countries when it comes to the expenditure due to the fact that the net position does not include many positive side effects and advantages of the EU membership. The benefits resulting from the EU integration are not only the inflow of the EU funds or the difference between the contribution to the EU budget and the expenditure of the EU made on the country's territory, but also political stability, increased security, advantages of single market, mobilization of private capital etc. Apart from this, the mechanism of the MFF also attracts criticism, especially the length of the framework and the degree to which the expenditures are planned, because it lacks flexibility. It is time consuming and complicated to shift resources from one area to the other, what makes it difficult to react to changes in the economic situation[11].

The above mentioned features make the financing system of the EU budget complex, not transparent and incomprehensible to the EU citizens. Consequently, they often criticize it claiming that they do not have sufficient information and cannot directly influence the budget's funding and spending. Apart from this, the EU countries, which are net payers, raise very often the "fair return" attitude. They judge the EU initiatives in terms of their national allocations, but such an attitude questions the solidarity principle of the EU. Because the system lacks visibility and simplicity, and the majority of sources come from national budgets, there are some proposals to modify it and increase the share of own, tax-based resources, while retaining the limited level of the GNI-based resources.

4. MULTIANNUAL FINANCIAL FRAMEWORK 2014-2020 AND ITS ASSESSMENT

In the end of June 2011 the EC presented the package of legislative proposals and documents for the MFF 2014-2020, which sets political priorities for the coming years and is a basis for budget's negotiations for the subsequent year. The EC proposed a financial framework with the ceiling amounting 1,05% of GNI in commitments and 1% in payments from the EU budget. Its size is comparable to the current financial framework, which spending represents 1,12% of GNI. Under the MFF a Common Strategic Framework for Growth and Employment as well as Cohesion for Growth and Employment have been proposed, what reflects the EC willingness that the EU budget should support and be compatible with the targets of the EU strategy Europe 2020. The new element of the MFF 2014-2020 are financial funds financed outside the budget, these are funds aimed at responding to crises and unforeseen emergencies or

[10] Begg I., Fiscal federalism, subsidiarity and the EU budget review, SIEPS, Stockholm 2009, p.7-10, 31-38.
[11] Pietras J., The future of the EU budget. In search of coherence of objectives, policies and finances of the Union, Centre for European Strategy, Warsaw 2008, p. 20-22, 56-57.

supporting developing countries. Moreover, the MFF proposes a reform of the own resource system via elimination of the VAT-based resources (until the end of 2013), introduction of two new own resources –the financial transaction tax (FTT) and the national VAT receipts and reform of the correction mechanisms. These reforms should lead to reduction of direct contributions of the member states, simplification of the system and increase of links between policies and financing. The current complicated correction mechanism should be replaced by a more transparent system of lump sum reductions of the GNI-based contributions paid by the EU countries. A member state may benefit from a correction, when a budgetary burden is excessive as compared to its relative prosperity. The reform will be introduced as of 1 January 2014. The lump sums would be based on current assumptions independent of the introduction of the new own resources. Apart from this, the EC proposed to introduce the FTT from the January 2018 the latest. It will apply on territories of all EU members; however, it will neither concern transactions involving private households and SME's, nor capital raised by enterprises or public bodies. Some forms of financial taxation already exist in 10 EU countries. The FTT should reduce fragmentation of the internal market and possibilities of tax avoidance. Part of the revenue coming from the TFF will be used as the own resource of the EU budget, what should diminish national contributions to the EU budget and, consequently, burden on national governments. Its rate has not been proposed yet. The second resource proposed by the EC will be the new VAT own resource-a single EU rate (1%) applied on all goods and services currently subject to the standard rate in every EU country. It will not lead to increase of the existing VAT rates, because the current VAT rates will be shared between a member state and the EU budget. The new VAT own resource will foster the harmonization of national VAT systems and provide stable and significant receipts to the EU budget with limited administrative costs for national systems[12].

The estimated impact on the structure of the own resources in 2020 shows that the main change would be a shift from national contributions accounting currently 85,3% of the EU own resources towards the new own resources, which would finance ca. 40% of the EU expenditures in 2020. The share of TOR would remain stable and would still account for nearly 20% of the total sum, whereas the GNI-based own resource would remain one of the most important financing sources of the EU budget amounting to 40%[13].

The EU authorities reckon optimistically that the new MFF will address more effectively the present challenges tackling Europe, lead to recovery from the economic crisis and contribute to increased economic growth and higher employment. Its aim is to support the policy goals of the Europe 2020 and promote innovation, growth and welfare. Although the MFF implements some changes in the EU financing, the main features of policies' financing and implementing do not change substantially. The size of the budget does not expand, consequently, its dimension remains still limited. The modern budget should support the main EU's priorities and adjust swiftly to changing environment, unfortunately the main spending items in the EU budget does not evolve over time, and even under MFF 2014-2020 the main flow of money still goes to agriculture. The EU budget also fails to effectively harness resources to support the goals of the Europe 2020 mainly due to the lack of sufficient funds[14].

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[12] European Commission proposal for the 2014-2020 Multiannual Financial Framework, European Commission, Luxembourg 2011, p. 3-6,12-13.

[13] Proposal for a Council Decision on the system of own resources of the European Union, COM(2011) 510 final, European Commission, Brussels, 29.06.2011, [online, access: 26.11.2011], http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/proposal_council_own_resources_en.pdf, p.5

[14] A budget for Europe 2020: the current system of funding, the challenges ahead, the results of stakeholders consultation and different options on the main horizontal and sectoral issues, Commission Staff Working Paper SEC(2011) 868 final, European Commission, Brussels 29.06.011, p. 7-11.

5. THE FUTURE OF THE EU BUDGET AND POSSIBLE DEVELOPMENT OF THE INTEGRATION PROCESS IN EUROPE

The long-run stability of the eurozone depends on continuing reforms in the direction of closer political union and fiscal federalism, which are necessary to minimize negative spillovers of asymmetric shocks, reduce economic divergences of the eurozone countries and deal with the flaws in the governance framework. Without such reforms the eurozone remains a fragile construction. Reforms in the direction of budgetary union would be an important element of deeper European integration, which would allow establishing an insurance system against asymmetric shocks. However, they require an increase of the present level of the EU budget[15]. What is more, the potential growth of the EU budget's size should be accompanied by a parallel increase of its role, on expenditure as well as the revenue side.

According to the theory of fiscal federalism, taxation policies should be transferred to the highest level of government in order to reduce harmful competition at the lower levels of government. However, in the EU mainly due to political reasons such a solution cannot have been implemented, as a result, one chose harmonization and coordination of national taxation systems and policies to reduce tax competition. There are also opinions that some public goods e.g. defense, infrastructure, consumer protection, education, R&D or immigration policy should be shifted to the EU central level to enhance the efficiency of sources' allocation. Nevertheless, such a process should evolve gradually as the result of a growing role of the EU in these areas and deeper integration reforms. Furthermore, potential introduction of a single fiscal policy in the eurozone does not only necessitate increase of the budget's size and reforms of its structure (higher spending in areas promoting economic growth and on solidarity policies, reduction of spending on agriculture), but also resigning from balancing the budget, permitting fiscal surpluses and deficits in the scope allowed by the SGP, and creating a central fiscal authority, which will be responsible for conducting a central fiscal policy. Creation of the central fiscal authority would be beneficial for the euro area i. a. by elimination of the excessive tax competition, better allocation of resources, more efficient fulfillment of the redistributive and stabilizing function of the budget[16].

Although centralizing spending and fiscal policy at the EU level might be beneficial, some EU member countries would not accept transferring national competencies and policies at the EU level and reducing their national sovereignty. Assigning expenditure for major policy areas to the EU level supposes to be not feasible nowadays. Nevertheless, changes to the current budgetary and institutional framework of the eurozone require a gradual approach. The first symptoms of reforms in the direction of deeper political union can be already observed in the latest reforms of the economic governance and establishment of the central resolution mechanism in the eurozone. Also the voices calling for establishment of a central eurozone government and the EU central ministry of finance are more numerous. The increasing number of economic and political analysts supports the idea that in order to make the eurozone viable in the long term, creation of a central ministry of finance, introduction of single fiscal policy and elevation of the European Central Bank (ECB) to the lender of the last resort would be crucial. Leaders of France and Germany call for tougher fiscal governance in the eurozone to stem the sovereign debt crisis and they speak about creation of the "fiscal union" to enforce budgetary discipline. They are for deeper integration among the eurozone member states[17]. The German chancellor Angela Merkel

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15 De Grauwe P., On monetary and political union, [in:] CESifo Forum, 4/2006, Munich , Germany, p.3-10

16 Szeląg K., A single fiscal policy in the Euro Area: Vision or Utopia?, Working Paper No. 46, National Bank of Poland, Warsaw, March 2008, p. 26-32.

17 Carnegy H., Euro leaders push for fiscal crackdown, Financial Times, 24.11.2011, [online, access: 26.11.2011], http://www.ft.com/intl/cms/s/0/e5fd61d2-1694-11e1-be1d-00144feabdc0.html#axzz1euPRy7ia

speaks openly about the need to establish a "true European economic government" consisting of heads of state and government of all eurozone countries, which will meet twice a year and will be led by the EU President[18]. Apart from this, the head of the ECB, Jean-Calude Trichet, in his valedictory speech called for more political unity and suggested that the eurozone should consider as a long-term goal setting up a single European finance ministry, which would enable to better coordinate national economic policies and exert surveillance over fiscal and competitiveness policies. He stated that establishment of the central ministry of finance would require dramatical, political changes including revision of the Treaty. According to Trichet the integration process in Europe would probably develop in the direction of confederation of sovereign states[19].

To conclude, although establishing a fiscal union in the euro area is still a far reaching idea, there are numerous voices that more unified fiscal and economic policies are essential to ensure a long-term stability in the eurozone and protect it from negative spillovers of the sovereign debt crisis. The reforms strengthening the economic governance, which have been already implemented, go in the direction of closer coordination of economic and fiscal policies. Although the origin of the euro area debt crisis does not lie in the lack of a federal institutional setup in the EU, a more federal framework would probably have dampened the current fiscal problems of some EU members, facilitated its resolution and improved political coherence. The stability of the euro area can be assured through reforms in the direction of fiscal federalism and political union, however, political will and social support would be indispensable to shift some national competencies to the central supranational EU level. Euro area governance needs more ambitious reforms. Currently transfer of fiscal policy, national taxes and budgets seems to be not feasible and would be treated as a too significant reduction of the national sovereignty. However, in the future the eurozone countries will have to face the uncomfortable decision of how much national sovereignty to delegate at the central level.

List of abbreviations

EC- European Commission
ECB- European Central Bank
EP-European Parliament
EU- European Union
FTT-financial transaction tax
GNI-gross national income
MFF-Multiannual Financial Frameworks
SGP- the Stability and Growth Pact
SME-Small and Medium Enterprise
TFEU –Treaty on the Functioning of the European Union
TOR-traditional own resources
VAT- value added tax

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[19] European Central Bank, Speech by Jean-Claude Trichet on receiving the Karlspreis 2011, Aachen, 02.06.2011, [online, access: 26.11.2011], http://www.ecb.int/press/key/date/2011/html/sp110602.en.html

2. Begg I., *Fiscal federalism, subsidiarity and the EU budget review*, SIEPS, Stockholm 2009, p.7-10, 31-38.
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