



**ТОШКЕНТ ДАВЛАТ  
ИҚТИСОДИЁТ  
УНИВЕРСИТЕТИ**



**ЎЗБЕКИСТОН  
РЕСПУБЛИКАСИ  
ФАНЛАР  
АКАДЕМИЯСИ**



**ЎЗБЕКИСТОН  
РЕСПУБЛИКАСИ  
ДАВЛАТ БОЖХОНА  
ҚЎМИТАСИ  
БОЖХОНА  
ИНСТИТУТИ**

**“ЎЗБЕКИСТОН ИҚТИСОДИЁТИНИНГ  
ИННОВАЦИОН РИВОЖЛАНИШИ ДОИРАСИДА  
ТАШҚИ ИҚТИСОДИЙ ФАОЛИЯТНИ ДАВЛАТ  
ТОМОНИДАН ТАРТИБГА СОЛИШНИНГ  
ДОЛЗАРБ МУАММОЛАРИ”**

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ГОСУДАРСТВЕННОГО РЕГУЛИРОВАНИЯ  
ВНЕШНЕЭКОНОМИЧЕСКОЙ ДЕЯТЕЛЬНОСТИ  
В КОНТЕКСТЕ ИННОВАЦИОННОГО РАЗВИТИЯ  
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## БИРИНЧИ ШУЪБА

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### ТАШҚИ ИҚТИСОДИЙ ФАОЛИЯТНИ ДАВЛАТ ТОМОНИДАН ТАРТИБГА СОЛИШНИНГ ИҚТИСОДИЙ ЖИҲАТЛАРИ, ХАЛҚАРО СТАНДАРТЛАШТИРИШ ВА СИФАТ МЕНЕЖМЕНТИ

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#### **THE CONTRADICTION BETWEEN EUROPEAN UNION MONETARY AND FISCAL POLICIES: HARDLY “EVER CLOSER UNION”**

The European Union is an evolving organization. Its avowed goal is “ever closer union”. However, its progress is hampered by the difference in speed with which E.U. monetary and fiscal policies are developing. The reticence of the member states to surrender their control over fiscal policy has left a dangerous imbalance at the heart of the E.U.

The European Union emerged from the ashes of World War II as a contradiction in European history. After a succession of essentially “civil wars”, Europe had finally learned its lesson: the only way forward was to abandon dreams of empire to live in peace. Thus, beginning with the 1952 declaration by four European nations and starting simply with coal and iron, Europe took up the long term project of building peace through unity. However, the task was fraught by centuries of “national sovereignty” among the member nations. It was determined that the European construction process would be undertaken through the economic side, thus avoiding the political conflicts that had proved so destructive in the past. Gradually, the Common Market of the loosely organized European Communities gave way to a structured confederation, the European Union. However, the fundamental contradiction between the avowed goal of “ever closer union” and the reality of national sovereignties took the form of monetary policy as opposed to fiscal policies.

With the creation of a European currency, the Euro, in 1992 and the founding of the European Central Bank in Frankfurt, Germany, the monetary side of the house of Europe emerged. However, the fiscal side remained in the hands of the different national governments, making the House of Europe difficult to manage. The obvious solution to this house divided against itself was the founding of a federal European government, but few member nations were willing to follow this path. Thus today the the clumsy structure of the European Union struggles forward, encumbered by its halfway in, halfway out structure.

### **How might a debate on “Fiscal Federalism” be framed?**

If E.U. monetary policy development can be simply traced, E.U. fiscal policy is much more complicated. Even though a document was signed by all E.U. member states except the U.K. and the Czech Republic on April 1<sup>st</sup>, 2014 - perhaps indicating an April Fools surprise – no consensus has emerged from the European Fiscal Compact. The fiscal question is fundamentally a federal issue. That is, the E.U. is a federal organization and the member states are its components. However, they are quite obstreperous components, armed with notions of “national sovereignty”.

So, how might we conceive of E.U. fiscal policy in understandable terms? One approach is to frame the conversation as one of “fiscal federalism”. In such an approach, there are fundamentally three elements: Vertical Fiscal Imbalance (VFI), Vertical Fiscal Gap (VFG), and Vertical Fiscal Asymmetry (VFA). Although the three terms closely resemble each other, they do not signify the same thing. VFI is an inappropriate allocation of federal revenue. Thus, the E.U. under this definition would be sending the wrong amounts of funds to certain member states. This notion is not to be confused with VFG for which a gap exists between intake and outflow of funds, thus requiring the recalibration of federal transfers to close the gap. Finally, VFA implies no gap. As a result, there are no measures to be taken.

It is reassuring to note that an organization already exists for such fiscal issues. It is the OECD’s Network on Fiscal Relations Across Levels of Government, in particular the Centre for Tax Policy and Administration. Thus, there is already a possible model for E.U. fiscal policy.

### **Toward Fiscal Union?**

For many in the E.U., Fiscal Union is the desired goal. But is the goal really feasible? Thus far, as mentioned previously, some degree of economic and monetary union has been achieved thanks in part to the creation of the Euro. However, taxes and spending remain largely in the

hands of the member nations. Thus, once again, there is monetary union, but no fiscal union.

Very pertinently, Laruffa comments that E.U. economic governance functions through “rules, policies, and institutional practices ... to ... establish a fiscal-monetary mix, competition rules, financial markets’ regulation, the single market, and international trade policies.”

The Euro has effectively centralized monetary policy but fiscal policy remains the domaine of the individual states. At least, there now exist institutional arrangements for sound budgetary policy and after-the-fact control by the European Commission. One thinks of the recent volte-face of the Italian government when confronted by the Commission over their anticipated budgetary deficit.

In short, the E.U. has limited fiscal powers. It helps set VAT levels in member nations, as well as tariffs on external trade, and has a budget of billions of Euros. However, these are limited fiscal powers indeed. It should be further noted that the Stability and Growth Pact (SGP) for Eurozone member nations does help coordinate their fiscal policies.

It is also true that member nations must report their fiscal planning to the European Commission. We have just cited the recent Italian example. In principle, the Council of Economic and Financial Ministers to which the Commission reports aberrations can disapprove a country’s budgetary plans, but in point of fact no nation has ever been fined.

Nonetheless, following the economic crisis of 2008, pressure accumulated for change in the E.U. fiscal rules. The pressure led to the previously cited European Fiscal Compact whose intention was to set stricter limits to government spending and borrowing with automatic penalties imposed in case of infraction.

### **So, whither European Union fiscal policy?**

Authors Marzinotto, Sapin, and Guntram Wolff in their 2011 bruegelpolicybrief article make a clear, if limited call for greater E.U. fiscal resources in order to stabilize the E.U. financial system and help countries in difficulty. Is this the way forward?