



Trilemma EU and EMU Challenges: Fiscal Competition, Harmonization or Unification

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ABSTRACT

Eurozone has grouped 18 countries in the European area, with different tax systems and thus, on the background of a common monetary policy numerous decisions and commitments for fiscal harmonization were adopted. Unfortunately, the realities did not carried into effect the ambitions assumed, different fiscal sovereignties have perpetuated their coexistence within the well-known frames, insufficiently tailored to the declared-only desire of harmonizing and, in time, the inefficiency of institutions deepened and the dysfunctions diversified, meaning exactly the scaffolding that the huge single market was designed and built upon. Moreover, the perpetuated coexistence of different tax regimes not only slowed, delayed or postponed the harmonization, but even stimulated tax competition between Member States' economies, becoming both the cause and result of the natural differences between countries. Tax competition seems also to merge most of the reasons of the multiform crisis which shake the markets and the states all over the world, not only in the European continent. Accordingly, the European Commission, supported by Germany and the other Member States, proposes measures for fiscal unification in the European Union, considering that the Eurozone crisis is the result of the common monetary policy singularity, but in the absence of a common fiscal policy.

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1. Introduction

1. Harmonization vs. tax competition

In practice, the need for harmonization requires a sustained and real requirement for a balance between:

- ◆ *Decrease taxation* – on the one hand and,
- ◆ *Fiscal consolidation*, on the other hand, which means the proper management of the public debt and budget deficit under the Maastricht criteria.

In its 10 years of triumphant euro area operation, the European Union has made a harmonized uniform regulation of various policies, such as: labour protection, employment, competition, environment, rationalization of water consumption and energy etc. However, the European Union failed to reach a comfortable level of harmonization as to support a unified fiscal policy, and this has become remarkably and surprisingly clear, especially when the current financial turmoil has generalized.

Strengthening the unified tax environment, especially in the euro area means the fiscal coordination, but it is a broad and comprehensive action, both as practice and as an approach, based on the following principles:

- ◆ Common fiscal policy milestones should be accepted by all the states even in certain circumstances;
- ◆ Principle of subsidiarity, which confirms the vertical relations between the European institutions and national bodies.

Certainly, tax harmonization can be achieved through a unique tax system as a result of systematic coordination operations. However, the need to remove barriers to the free movement of the factors in a single market should be added. The experience of the euro area first decade history recorded a few achievements towards harmonization. For example, it is necessary to consider the major difference between direct and indirect taxes, which determines the different way in applying the fiscal policy coordination. Indirect taxes require a greater degree of harmonization because they are closely related exactly to the free movement of goods, services, capital and persons. Likewise, direct taxes require coordination arrangements for taxation of the income from national and international companies.

Also it focuses on the taxation of individuals, so that the background of freedom of movement, the excessive taxation or double taxation should be restricted.

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It is known that Member States signed the Stability and Growth Pact as a valuable prerequisite in coordinating the fiscal policy. But the realities of the recently past few years, as well as the deviations from this pact that even the founding states of the Union have committed, attract the attention and require closer coordination in the fiscal policy, including coordination regarding the debt management.

Fiscal coordination should also follow other key areas such as:

1. The expenditures for public goods, especially when applied to EU projects related to transport and communication networks;
2. The State aid must follow the EU rules, as long as this chapter has a decisive impact on competition in the single market;
3. The policies of budgetary resources redistribution require strict coordination especially related to the EU budget deployed funds.

To accelerate the coordination of the fiscal policies, which is much slowed because of the necessarily unanimous Member States' vote, a series of mechanisms have been imagined to remove barriers to the free movement of factors. Although they were designed as helpful tools in smoothing the steps prior to make even tax policies and practices, such mechanisms have considerably diminished efficiency because they lack the imperative character of a law. However, the achievement of the EU's overall objectives was on the way, and hence a certain pressure is set up on those states that delay tax reform, a condition for imposing the European Commission's indications and, finally, the introduction of sanctions for the non-cooperative countries, meaning the so-called "*enhanced cooperation mechanism*".

However, these mechanisms which have not the force of a law mark the involvement of the EU institutions in harmonizing the fiscal policies, especially in those areas where single market's efficiency and functionality could be affected. As globalization intensifies, many experts' analyses and concerns about the effects of globalization on tax revenues show that some countries might be tempted to export their tax burden. In this way, tax revenues of other countries could be reduced. In fact, it means the intensification of the tax competition. Even if the policy coordination aimed at lowering taxes, there is generally an escalation of taxation, in parallel with a reduction in social security contributions, every aspect of this kind assuming nuances from one country to another. Personal income tax is subject to quota reform and forms of settlement, but overall, there is an increasing taxable income. On indirect taxes, coordination meant higher corrections (and interventions), but the reality shows serious difficulties because no Member State has approached any front reform of the indirect tax.

2. Tax competition - genesis, concept, development

Globalization means deepening interdependencies so that separate national economies are intertwined into a single global economy. Its resulting phenomena are materialized in enhancing the trade and financial flows of investment, labour, while both cause and effect are the transfers of technology. Moreover, the deregulated financial markets and also the removing barriers to trade and investment have reduced the cost of communications and transport, which has boosted globalization. In this new economic environment, maintaining a high level of taxation becomes difficult. Integration phenomenon which Romania joined as partner gave more freedom to individuals and businesses to exploit the greater opportunities of benefits. Therefore, the investment decisions and the location from taxation are seriously influenced. When opening borders, maintaining a high level of taxes would generate losses, diversion of flows without an economic foundation and also causes isolated areas based only a tax motivation. As the mobility of capital and labour increases, the trend of the international tax competition is increasing either. But some analysts addressed tax competition as an element that generates distortions. Specifically, it determines the migration of capital and labour across the borders of those countries with unreformed tax system and where resources might remain either underused or even unused. The classic explanation is one according to which a suffocating tax inhibits growth. It is true that as long as tax cuts propagates as a determinant of the economic growth and income, tax competition would have positive effects. But internationally, policy makers are the main opponents of levelling low tax rates.

The governors that are not yet committed to reducing taxes could invoke unable to order redistribution of income. Even the OECD called free movement of factors as the main cause of negative effects and influences on income redistribution. As part of the usual duties of the state, this procedure involves applying a higher tax rate for certain categories of persons, while for the others, the tax rates are lower.

However, the main beneficiaries of the free movement happen to be of all things just the payers of the reduced income tax. On the other hand, in many countries tax competition negatively affect the income redistribution, but this fact could be achieved especially in those countries where redistribution has occurred in an excessive degree.

Globally, not only the OECD officials are concerned with reducing tax competition. Many countries have adopted a series of anti-competitive measures as well. For example, more complex layers of restrictive rules of taxes are set up and applicable to the operations with foreign corporations.

Preventing tax avoidance in general, these rules are designed to prevent the benefits that a company could get from reduced taxation revenue which may have their subsidiaries abroad.

One could conclude that governments act directly through defensive measures against the very process of globalization, and their actions threaten economic freedom just because it counteracts the pressure to reduce taxes due to tax competition. For example, at the beginning of this millennium, the trend of globalization has led to a series of fiscal measures in order to attract trade flows and, especially, capital flows, which decreased both income and corporate taxes. In these circumstances, tax competition induced a pressure to reducing taxes as to prevent the direct loss of capital and skilled personnel in those countries which have not yet released a tax reform.

In addition, the states that won notable economic success after lower overall taxation are a stimulating example. Hence, the case of Ireland should be stressed, as it adopted a share of only 10% tax on income and profits, and, based on a former strong financial support of the educational system, the country soon became famous as „*the Europe's tiger*“.

The consequence was found in the standard of living which is among the highest in Europe.

Compared to the levels of taxation in the years 1980 – 1990, there was a decrease by an average 20% in the OECD industrialized countries' income taxes and about 7-10% in the tax on companies' profits.

Many of the north-western European countries, such as Denmark, Finland, Norway or Sweden, have adopted the dual tax systems as a result of increased tax competition.

These systems include low rates on income from capital holdings, but maintain progressive tax rates on labour income. It is estimated that lowering the tax on capital income is explained by the intention of maintaining a separate competitiveness on the international capital markets. But in other countries, such as Canada, taxes on capital gains were substantially reduced. However, in New Zealand, Hong Kong or Taiwan, capital gains are not taxed. In Germany, for instance, for the sake of competitiveness, the reform has gone up to the abolition of the 50% tax on the shares owned in other companies. The move came even though the EU officials have expressed their concern over the unfair tax competition. In reality, Germany happened to attract the foreign companies' holdings which were previously attracted by Netherlands.

Another response to tax competition was to reduce, and even eliminate - the special tax on wealth, especially because they were undermined by the capital mobility. While Norway and Sweden reduced these taxes, Germany, Austria, Netherlands and Denmark completely abolished them. Downward trend recorded the tax on capital holdings as well. These are taxes on payments to foreigners as dividends and interest, and their reduction was intended to discourage the investments caused by the so-called „exit tax“ on the repatriated income.

But the strongest pressure unto the tax competition is found between countries related through important and traditional economic, investments and cultural links.

An example of this is the relationship between Canada and the USA, especially after the reforms initiated by the current known as „Reaganomics“: slower increase of the individuals', as it is intended for consumption anyway, while substantially reducing all the forms of taxation on corporate profits, because they implement future investments and they are the real engine of a sustainable growth which might ensure long-term benefits for the whole society. In conclusion, tax competition has caused substantial reductions in statutory taxes, which both individuals and legal entities reported. Wealth and capital ownership or capital growth taxes reductions were added. However, tax reduction trend has not spread to all countries.

A first explanation is the governments' need to protect their tax base. Defensive measures include the application of complex rules for foreign companies' income taxation and also the efforts to limit the tax competition by international political pressure on nations with low taxes.

3. The overall impact of tax competition

There are several formulations of practices implemented in theory about the consequences of international tax competition, a concept launched in the 50s, starting from providing public goods and services by local authorities. Thus, it was observed that competition between local households would increase the general welfare of the entire community. Therefore, to avoid residents' losses, the authorities must adapt both public spending and tax policy to local preferences. In other words, the individuals themselves will select the favourite jurisdictions according to their request for the public goods and local taxes. If some households prefer well-funded public schools, those households may agree higher taxes on the property as well. Otherwise, they might choose a jurisdiction with more efficient and more limited taxes, information and public services. The arguments went on, concluding that there are great similarities between the competition among the local authorities and the market competition.

Market competition encourages the achievement of optimum production and customer satisfaction, while tax competition provides the necessary motivation for the politicians to improve the government efficiency and to meet the demand of the population that voted them.

Going on the same logic, the result of tax competition should lead to a true compliance of taxpayers to the tax levy, meaning that tax rates should reflect the typical preferences of each jurisdiction.

However, with increasing international flows of capital and labour, governments and local authorities are the same and they tend to attract outside taxpayers within their own borders.

But over time, there were a number of elements that describe the shortcomings and ineffectiveness of this approach. Several models have been devised to estimate the effects of tax competition. According to certain assumptions, tax competition would boost welfare. Instead, other different assumptions plead that, because tax competition, the welfare is of all things declining and it also could distort the investments flows.

In this respect, the Commission of the European Parliament considers that the harmonization of the corporate taxation would be necessary and useful to prevent the distortions of competition, particularly concerning the investment decisions.

A tax system which is not neutral could cause a misallocation of resources. On the other hand, the OECD officials advocate tax competition reducing and conclude that its negative effects would consist in distortion of investment, trade, and the global welfare. Most analysts reveal that the arguments to combat tax competition are rather political, than economic ones. However, the following six negative effects of low tax regimes were identified:

- ◆ distortion of the financial, investment and trade flows of goods and services;
- ◆ undermining the integrity and fairness of the tax structure;
- ◆ discouraging the taxpayers' obedience;
- ◆ increasing of the administrative costs;
- ◆ acceptance tasks by fiscal authorities and tax payers;
- ◆ modelling desired level and structure of taxes and public spending;
- ◆ transferring the tax burden on less mobile tax bases such as labour, property and consumption.

Incidentally, crossing taxation on fixed elements is the expected consequences in a globalized economy. Although OECD disproves the tax competition as it erodes the tax base of many countries, it also supports the income tax reductions which are arisen out of the globalization. The reason is that open the economies increasingly strengthen the competitive environment, thus encouraging the countries to make their own tax systems more attractive to investors. At the same time, it is recognized that overall tax reduction leads to high efficiency of public expenditure programs as well. However, it acknowledges that tax reforms erode the foundations of taxation only in those countries that have relatively high taxes.

4. Neutrality and diversity – the cost of the global welfare

The critics of tax competition adopted the perspective of global welfare. It is assumed that the USA reduces taxes in order to attract the investors and to increase the investments, but they do not take into account the effects of these measures on Germany at all. This detail could be considered inefficiency or an externality of tax competition. In other words, if countries pursue their own citizens' good (interest) through tax cuts, they will be accused of harming the interests of other countries' citizens.

This finding calls into question the *sovereignty* of nations. But refraining from internal, domestic reforms, due to the concern for less competitive tax regimes jurisdictions is not a normal thing either.

The concern for global welfare and the negative effects of tax competition as they might be interpreted, means in fact a false view on fiscal policy itself. That is, fiscal policy would be only a game of algebraic zero-sum type. But tax competition is not the manifestation of such a game. If a country adopts a more efficient tax system to maximize their growth, other countries will follow it and, thus, an overall increase in both investment and results might come.

In this regard, an illustrative example is given by the income tax cuts initiated in USA by the above-mentioned tax reform in the eighties, according to the principles of the so-called current known as Reaganomics, bearing in mind that all the countries would collect benefits when they pursued their interests.

The alleged global welfare cost of tax competition is based on how tax differences may alter the allocation of a fixed amount of investment between countries. In reality, serious fluctuations welfare costs occur within those countries where income tax is higher, especially tax capital and skilled individuals' income tax. High marginal taxes create significant losses. These losses are a cost of inefficiency and they increase while marginal taxes are increasing too. The idea is that any tax reduction, no matter how low they might be, could lead to economic gains. Therefore, tax competition creates and stresses a certain pressure, causing growth and investment due to the low taxes. Unanimously, tax cuts are recognized as leading to economic growth. However, there is a concern which is more difficult to control an according to which the tax competition may cause a deeper decline of taxes.

The problem is as how „low“ may become „too low“.

For example, the proponents of tax harmonization approached any deviation of the level and distribution of the tax burden placed on a non-competitive world as excessively low. But this vision is justified by the very premises of the models on which it was built on. Each country has a sustainable motivation to lower companies' taxes under the level that would be consistent with their natural level.

This latter level is explained by the government theory of the public interest, which claims that the government would be *ab initio*, a benevolent maximizer of welfare. Tax competition appears as a distortion of the optimal fiscal balance that governments achieved when they have monopolised the capital and labour. The public choice theory operates in contrast with the government theory of the public interest and it concerns the public officials engaged in certain self-interested compartments. To an extent more or less

significant, this fact might lead to a maximization of the welfare of society. Those responsible for the management of the fiscal policy seek to obtain greater power by maximizing the budgets, salaries, premiums.

The consequence of this situation lies in the excessive spending, which is why, here, in a contradictory way, makes tax competition to determine the overall welfare gains through tax cuts. Therefore, tax competition usually keeps a tight rein over the government's inefficiency. In the absence of tax competition, governments proceed as private monopolies that are less interested to reduce the negligence in consumption and the stagnated quality. A competition among nations tends to produce a limited groups' and politicians' ability to impose their discretionary will in the detriment of the majority of the population.

The concept of tax neutrality generates and maintains concerns about the international tax competition. Generally, economists support those tax systems whose effects have an equal impact, in the sense that they do not favour one industry over another. But if any charge is not completely neutral, governments have the obligation to minimize the distortion. The good idea of tax neutrality within the national borders can not translate the problems abroad. For example, there is controversy between those who support the neutrality of the capital export in the confrontation with the neutrality of the capital import.

These different visions about neutrality give life to different policies. But competition between governments is not limited to the fiscal field. Therefore, the government policies as a whole can generate some configurations of the investment and labour flows across borders. Until lately, a clear reason was not revealed nor was reasoning precisely formulated for which the government policies should require international harmonization.

On the contrary, the diversity of tax systems is considered superior compared to the concrete actions of tax harmonization. One explains that gains are acquired through the diversity of successes or failures outside strategies. Leading to the subject of this reasoning, it is considered that, as long as the efforts to harmonize mean implicitly a global restriction of tax systems, the tax harmonization, as a levelling action, smoothing only certain fiscal practices and policies, will be inherently incriminated for the delays or gaps of the beneficial developments of the independent national tax systems.

5. Sharing the competences between the EU and the Member States

The new paradigm which particularly affects the doctrine of the European construction refers especially to the efforts of super-positioning the Community law in the light of the new constitutional remodelling of the EU institutional structure. It is about the much-discussed Lisbon Treaty, which seeks to save the Treaty which establishes the European Constitution.

The historical and legal study on the concept of *sovereignty*, beyond its theoretical importance, is relevant for understanding the current meanings of the flow-reflux movement, looking for a realistic strategy for achieving a legal and political EU configuration as a legal entity and thus, understanding the relations between the legal and political European order and the sovereignty-autonomy of the national institutions.

From the beginning concept up to the present day, the whole and comprehensive historiography of the European construction hand down enthusiasm and also optimism, justified by a tortuous past, in which the explosion of nationalism simply devastated the Europe. The post-war reconstruction of the Western Europe started on the path of economic integration primarily, but also political one, moving toward a federalist model. By joining the European Community, Member States have given up some of their both interior and exterior sovereignty.

Thus, determining the competence which the Member States have conferred the European Community and respectively – those who they have still preserved became an outstanding imperative. Hence, the issue of *division of the competences* and, in this respect, there are:

- ◆ the Community's exclusive competence,
- ◆ the Member States' exclusive competence, and
- ◆ the shared competence between the Community and the Member States.

In principle, the Community is competent to exercise its internal sovereignty only in the areas which are specified in the Treaty, i.e. the explicit internal competence, but also in the areas where power is implicitly recognized.

This is the default internal competence. Regarding the external sovereignty, the Community has the competence in specifically areas as referred to in the Treaty, but on the basis of an express or implicit mandate. Even in areas where the Community has exclusive competence, the Member States have a residual competence and the right to implement the community regulations at the national level.

In areas where the competences are shared, the powers conferred by public law of the Community and the Member States shall be subject to the subsidiarity principle, which states that, if possible, the regulation should be implemented by that level of the government which is closest to the citizens.

In other words, even if it had the jurisdiction to regulate, the Community action at the Community level is possible only if the following conditions were met:

- ◆ The objective is better achieved at Member State level;
- ◆ The objective can be achieved at Community level;
- ◆ The extent of Community action is limited to what the achievement of that objective is necessary.

In conditions of economic integration and globalization of trade, the tax system of a state acts on another state, so that the fiscal measures taken by certain states could not be neutral against other states.

Therefore, comprehensive tax policy propinquity and also the harmonization of tax systems in different countries are topics more and more talked about. Such a development which is inherent in the current situation disturbs all the fiscal systems and determines deep changes considering the approaches to fiscal and political states' sovereignty especially.

6. The requirement of fiscal policy's optimality

Perhaps never before as in the recent years, the appropriate level of tax optimality was not necessary to be achieved throughout the European Community. But tension that have recently settled especially in the euro area and which was ended by an agreement between almost all of the Member States (mind some exceptions), indicates the imperative character of a fiscal policy which should be at least balanced, if not harmonized.

First of all, fiscal policy involves a number of *restrictions*:

- ◆ *Dimensional*, because it is directly related to the credit market and the degree of state intervention, as a reflection of the financial potential that differs from one country to another;
- ◆ *Structural or institutional*, that takes into account both the tax base and the degree the public economy and the institutions specialized in tax matters are developed;
- ◆ *Informational*, derived from action and reaction forces with impact on public revenue collection;
- ◆ *Instrumental*, as it imposes only rational and balanced use of specific instruments for intervention, constrained by certain macroeconomic parameters. The effectiveness of the fiscal policy depends on the cumulative compliance of all these restrictions.

The problem is even more difficult as it requires compatibility among the national and Community restrictions and realities. There is an extensive chronicle of the negative effects caused by exceeding the threshold of affordability tax burden. These include a substantial reduction of productive effort, an effect with immediate visibility in the behaviour and attitude of taxpayers who act in the economic environment.

In another embodiment, this negative effect is manifested by the reduction of the employee's working time because of the drastic reduction of his income by taxation. The other negative effects caused by the correlations in the fiscal policy are the tax evasion and fiscal fraud through the various forms of both legal or non legal tax avoidance and evasion. Thus, many phenomena such as underground economy can occur and other similar issues that generally jeopardize the whole economic situation.

Amid the relocation of production and relativization of the geopolitical barriers, tax evasion extends and internationalizes, due to the inherent phenomenon of migration to areas with more attractive taxes. Another negative aspect is the inflation tax, which is due to increased taxes and contributions.

These increases distort the price mechanism and hence, the wages as labour prices. Price increases are logical because economic agents naturally tend to recover their reduced income caused by the increasing taxes which they were previously required to pay. International competitiveness itself is also damaged, whereas the established financial obligations to the state and taxation distort the trade flows themselves.

Increased taxation divests the companies of their self-financing capabilities for investment and modernization. Meanwhile, an oppressive tax system endangers the social peace, fuelling individuals' radical reactions headed for social demands.

Thus, fiscal policy requires not only compliance with their restrictions, but also the correlation with the specific instruments of other government policies to achieve the optimal degree which stimulates the efficiency and the economic growth.

7. Euro zone's structural vulnerabilities

Events succeeded beyond 2008 amid the financial large amplitude turmoil and which culminated in the sub-crisis of the PIIGS group of countries, seemed to have proved the insufficient, fragility and irrelevance of the nominal convergence criteria. Moreover, these events, which may extend to all European countries, demonstrate the importance of the real convergence. As a definition, the real convergence means the process of homogenization of the EMU Members' economic structures. So it is structural convergence in question.

In other words, the real convergence is based and, at the same time, is a closer approximation of all the full detailed elements that compose the addressed entities. Many analysis on evaluating the harmonization or convergence, with all lucidity start rather with the situation of the 50 USA states, and less with the mechanical measurement of the convergence criteria. Indeed, there remain several gaps between the regions, even legislative differences that occur naturally in the case of a federal state where component states benefit of autonomy.

But monetary policy, fiscal policy, and also the general framework of the movement of factors - are unitary and already have practiced a long and rich tradition, in which their specific mechanisms were uninterruptedly exercised and were under way improved efficiently. Additionally, and this is important, there is but one nation in question, one active and mobilized citizenship, whose unified leadership naturally perpetuates in an election cycle which was consecrated in over 200 years.

These elements that compose the structure of a parastatal conglomerate comparable to Europe are absent in the case of EU and all the more so in Euroland. The real convergence decreases the probability that the risk of asymmetric shocks might occur, in the sense that the risk that any gaps could turn into shock would be excluded. All the analysts of the recent events in the Eurozone concordantly incriminate the incomplete real convergence. A comprehensive set of criteria in this area include relevant indicators such as GDP/capita, labour productivity, GDP structure, the share of investment in GDP, unemployment etc.

8. Harmonization, i. e. integration and compatibility, not fiscal unification

The sovereign debt crisis threatens the stability of the euro and could lead even to the disintegration of the European Monetary Union. Although it is considered as a sovereign prerogative of the Member States, the fiscal policy is approached from a different angle by some European officials, as a fundamental concern for strengthening integration. No institutional system created by the Maastricht Treaty and developed by the subsequent treaties and unified by neither the Treaty of Lisbon which entered into force in December 2009, nor the system of the exclusive or shared competences do not pass the fiscal policy as Member States' common concern. On the contrary, this is still an exclusive competence of the Member States, and only certain items are included in their shared competence, namely - fiscal policy and public debt.

The crisis which is recently facing the euro is the consequence of failure of the thresholds which were explicitly inserted in the Stability and Growth Pact referring to the Member States' budgetary deficit and public debt. As long as even the founding states of the European political and economic construction have recorded such deviations, the independence of the European Central Bank (ECB) and even the stability of the euro were affected.

For example, early on May 10, 2010 the Frankfurt monetary institution started buying bonds directly issued by the governments of the most indebted countries in the Euro area, thus supporting the gigantic package worth 750 billion euros which the Euro group, ECOFIN and the IMF adopted in order to stop the contagion in the Euro zone debt crisis, after the Eurozone finance ministers had previously adopted an aid package of 110 billion just to keep afloat the government in Athens.

The exchange rate of the euro against the dollar had reached its lowest level in four years continuous depreciation, while the financial markets anticipated a devaluation of the euro to ease the fiscal situation of the most indebted countries in the euro area.

Under these circumstances, and supported by Germany and other Member States, the European Commission proposes several measures to unify the fiscal policy in the EU, believing that the current crisis in the Eurozone is the result of a common monetary policy which was not accompanied by a common fiscal policy. In fact, such a situation could perpetuate long from this time on, but only on the condition that the rules of fiscal discipline should be brought in force as they were inserted in the Stability and only if the ECB had not been forced to sacrifice euros to bail out the over-indebted Member States.

The real cause of the crisis is the erosion of the institutional framework of the Union as it was created in Maastricht. Specifically, many Member States' unsustainable indebtedness and the measures to save them from insolvency fuelled the moral hazard at the governmental level and hence it threatened the very viability of the euro. So, the idea of unification tax came since setting up the rule of overseeing the European Member States' budgets, continuing with increasingly harsh punishments and penalties against the indebted countries and stipulating „*strategic guidance*” measures for the economic development, which is actually an extension of the EU's competences.

Such steps, adopted in order to restore the fiscal discipline, include the fiscal policy in the category of shared competences, thus giving free way to the European bureaucracy to centralize the taxation. Naturally, it will also harden the dispute between the supporters and the opponents of the Member States' fiscal sovereignty. The latter might think that once the Union was authorised with taxation, it would easily succeed the European construction and lead the continental construct to an outstanding position in the world.

Both some analysts and European officials, and even the majority of the European citizens as taxpayers are among the fervent supporters of the Member States' fiscal sovereignty, as they consider the centralized taxation as a severe restriction of the individual freedom and an escalation of their tax burden, since the centralized institutions would overlap with the local authorities having responsibilities in taxation.

Suppression of the tax competition is a harmful prerequisite for the generalization of the oppressive and inefficient tax practices, which citizens and businesses would be forced to bear, having no possibility of avoiding, correcting or sanctioning them at all.

However, the abolition of the tax competition and the fiscal centralization will strengthen the Brussels bureaucracy and will increase the distance between it and the other citizens, whom both „voice” and „exit” option would be carried off.

Thus, it is expected a worsening of the so-called democratic deficit which the Union is already currently facing, as the austerity measures not only failed to dilute the crisis, but they also stimulated the separatist-nationalist movements and atomized the social peace, i.e. the most necessary characteristics of this complex economic and geo-political construction.

Proponents of the fiscal sovereignty and thus, of the tax competition - argue with its ability to empower/penalize the local decision makers and the effectiveness of this approach must be ensured by strengthening the Union's institutions, guaranteeing the fundamental citizens' freedoms and prosperity, not by the centralized taxation, which could distort the social developments and could induce economic deficiencies in the allocation and exploitation of resources.

Known as a concept with a strong rhetoric resonance, the harmonization hides a special ambiguity that tends simply to have out. As a technique, the harmonization may be the result of a compatibility or an elimination of the differences between two or more entities.

However, as the European officials approach it, the tax harmonization as it is referred to, requires the elimination of gaps, i.e. the unification of taxes, meaning the complete abolition of the differences between the tax bases and the reduction of the differences between the tax rates.

The threshold at which the desired alignment of the tax rate should be done is also of great interest, as it could be a lower level or a higher one.

The critics of the states with low tax rates, among which there are Slovakia, Bulgaria and Romania, easily concluded that the Europeans „harmonizers” usually opted for high rates of taxation.

Dangers of increasing states' power on their own citizens and also governments' fiscal disavowal should be reported among the real possible shortcomings of harmonization.

The economic growth of the poorer countries would be affected by harmonization, because differences that separate them from the richer countries would tend to accentuate, thus depriving them of the very few levers to attract the foreign investment and stimulate the local entrepreneurs.

In Romania, the strategies of economic recovery and growth were applied either hasty or chaotic, thus overlapping with the transition dysfunctions, which seriously aggravated many of the negative effects mentioned above.

The actual situation of the economic basis itself had deeply damaged the use of the financial and economic instruments, causing a poor response of the national economy to its correct perceiving and reacting to the external signals.

However, the whole Romania's history, as well as its recent one show that necessary resources and energies always had been found under the banner of high and noble ideals or motivations and hard efforts have been always focused on the proposed goals.

Henceforth, Romania's option for the free tax competition should be strongly supported and the tax harmonization should be carefully considered, taking into account both the common interests of the country alongside the other Member States' and its urgent interest of economic development.

This position represents the only premises and also the viable prospect for accelerating Romania's compatibility with the developed economies of the EU, the certain recipe for the country's integration in the club of the European prosperous democracies.

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