

FISKALNI SUATAV I FISKALNA POLITIKA EUROPSKE UNIJE,
Jure Šimović and Hrvoje Šimović, 2006, Faculty of Law, Zagreb, pp. 310

Review*

The beginning of 2006 saw the publication of this book, which deals with political and economic integration in the European Union, within which an important role is played by the fiscal policy of the EU.

The book's authors, Jure and Hrvoje Šimović, point out that the EU fiscal system consists of three basic units, that is, the budget, the harmonisation of taxation and the coordination of the stabilisation budgetary policies of all the member countries. The authors have respected this sequence in the structuring of their book; first to be dealt with is the fiscal system of the EU, then the budget and the process in which the tax systems of the member states are harmonised are explained; then the fiscal regulations that the EU demands from all members; and finally a comparison is given between the fiscal systems of the EU and Croatia. The book also analyses the possible effects of the enlargement of the EU to include other countries, including Croatia, as well as the likely viability of a single market of almost half a billion people. Special emphasis is placed on the efforts put in to date, primarily on tax issues, on the part of Croatia in the negotiations with the EU about full membership.

The authors particularly point out that the degree of economic and political integration in the EU depends on strengthening fiscal sovereignty in the EU as a whole. The instrument for implementing fiscal policy is the EU budget, the basic function of which is the financing of the common functions and policies of the EU, that is, the needs of the confederation of countries represented in the EU. This leads to the conclusion that there are numbers of constraints on the fiscal sovereignty and budget of the EU. So that the fiscal policies of given lands should be as well adjusted to each other as possible, the member states have to respect numerous rules and restrictions such as the Maastricht criteria and the Stability and Growth Pact. Apart from explanations of the budget itself and the system for the allocation of resources in the EU, they set forth the fiscal constraints and discuss the needs for a change in the existing model of financing, listing its positive and negative sides.

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The budget is used to finance the charted common policies of the EU. But here, the budget of the EU and the budgets of the national states vary very greatly. The key reasons inhere in which expenditures are financed, and how they are financed, and the size of the budget as a percentage of GDP is much greater even in decentralised countries such as Canada and the USA than in the EU. Apart from that, the EU has a much more tightly regulated budget, in which the emphasis is placed on agriculture and structural adjustments, while the national budgets focus primarily on education, health care and pensions.

The integration process is neither simple nor easy. Some countries, although they are full members, resist the transfer of fiscal jurisdiction to EU bodies. Furthermore, in the process of accession, future and current members are not and never will be in an equal position. Wealth gives power. Accordingly, the authors also point out the inequalities in the allocation of resources for new and old members, and correctly conclude that the new members will not enjoy the same treatment, in, for example, agriculture and structural policy, as that of the EU 15 countries. From this it follows that the greatest benefit from the creation of the single euromarket is derived by the members that were among the first to become members of the EU.

Šimović and Šimović say that in a situation in which the majority of countries are against transferring fiscal jurisdiction to EU bodies it is possible to ensure fiscal unity in the EU by harmonising the tax systems of all the member states. In this, Croatia has gone quite a long way by now, particularly in tax questions. But in expert circles there is as yet no unanimous opinion about the harmonisation of tax systems, and some think that the process is a necessity, while others argue for competition among the fiscal systems. Whatever the truth of the matter, harmonisation is not a partial process, rather covers the harmonisation of the tax systems of each member country as a whole, great help being given here by the numerous EU directives. For example, all current and future members have to harmonise their taxation of the sale of goods and services (VAT) with the 6th Directive, which is explained in well-supported detail. The greatest arguments are waged around the zero rate and the numerous tax exemptions that are used by most members of the EU. Not even with respect to these issues are theory and practice united, with viewpoints varying very greatly, from the number of tax rates to the scope of taxation with the zero rate.

Similarly, because of the lack of existence of a single fiscal and tax policy, which have a direct effect on decisions on investing and financing, in the EU and in the world at large the problem of harmful tax competition has come to the fore (and this is tightly linked with the harmonisation of taxation). In order to handle this issue it is necessary to achieve the maximum degree of harmonisation of the tax systems of all the member states. This and a number of other facts all lead to the conclusion that the process of integrating European countries into a unit is a complex and economically expensive process that has both advantages and disadvantages.

Croatia too, the further the negotiations about joining the great community of European nations advance, will have to taste all the pros and cons of the process. Although Croatia has to a very large extent a system that is adjusted to and comparable with that in the EU, the problem is that it is still burdened with a number of predicaments that will have to be settled by the time full membership is secured, such as the non-existence of any unified and complete strategy for the development and the optimal degree of fiscal

decentralisation, and the lack of harmonisation of the legislation with the *acquis*, which greatly reduces the opportunities for taking advantage of EU budgetary resources. In the light of this one can venture that this book will certainly be interesting to all who are in some sense affected by this set of issues – officials at central, local and regional levels, political decision makers, entrepreneurs, investors, farmers and people working in many other areas. The more so, for the authors do not simply put forward the mere facts, but give a well supported discussion of most of the important issues of fiscal policy in EU countries and the adjustment of the domestic to the fiscal system of the Union. It is something of pity that the authors did not deal to a similar extent with the problem of the domestic budgetary deficit and foreign debt that are of such great importance in the accession negotiations. We can hope that the book will contribute to future generations of students being better educated and informed, for it will certainly be of great use to them in studying this complex and demanding problem area. For domestic lecturers too, this is a book that can constitute a useful signpost as to the sequence their lectures on this topic ought to follow.

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