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**Comparing fiscalisations:
a review of *Fiscal Unions* by Tomasz Woźniakowski**

by

Federico Bonomi¹

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Abstract

A review of *Fiscal Unions: Economic Integration in Europe and the United States* by Tomasz P. Woźniakowski (OUP 2022).

Key-words

European integration; federalism; fiscalization; Economic and Monetary Union; comparative politics



Tomasz Woźniakowski's *Fiscal Unions* (2022) is a must-read. Not only for academics interested in the history of the European Union's and the United States' economic governance, but also for anyone who is interested in why and how differently those two crucial political constructs of the contemporary era equipped themselves with tools allowing a better management of public finances, both at the national and the supranational level.

The book is built drawing from William H. Riker's theory of federalism (Riker, 1964). Riker's work, particularly his "threat hypothesis," focuses on the conditions that lead to the emergence of federations.

Riker's two key conditions for the emergence of federations are, in sum, the following: 1) political leaders seek to expand their territorial control but cannot do so through conquest, leading them to offer concessions to constituent units, forming a federal bargain; 2) constituent unit leaders are willing to give up some independence in exchange for protection or participation in the potential aggression of the federation.

In the introduction of the book, Woźniakowski proposes and defines the concept of fiscalisation – i.e., the process whereby a central government gains the power to raise its own revenue, ultimately leading to the emergence of a federal fiscal union – and applies it to Riker's theory. Fiscalisation is distinct from the regulation of member states' fiscal policies and is discussed in contrast to it throughout the book. Moreover, the author refines Riker's theory by pointing to internal existential threats as a necessary condition for the emergence of fiscalisation rather than, as Riker posited, external threats.

Hence, the author presents a model that is tested throughout the study. The central hypothesis is as follows: "If a federation encounters an internal threat, then the process of fiscalisation will be launched." The author then provides an analytical model to elaborate on this hypothesis, suggesting that the severity of the internal threat correlates with the likelihood of the fiscalisation process occurring.

Woźniakowski draws parallels between this fiscal bargain and Riker's above-mentioned federal bargain, emphasizing that both require consent and result in constitutional-level arrangements. The key political leaders of constituent units are motivated by the expectation that the fiscal bargain will lead to more gains than losses, extending their fiscal territory and increasing revenue collection. The essential element of this hypothesis is the presence of an internal threat, whether real or perceived by political elites. The author argues that both actual and perceived threats can lead to the fiscal bargain, with examples such as economic



depressions potentially causing social unrest. The empirical evidence sought to support this hypothesis includes statements by political elites acknowledging the threat, planned countermeasures, and arguments linking the threat to the need for fiscalisation.

The author provides a detailed explanation of case selection and research methodology, offering insights into their approach to comparing the emergence of fiscalisation in the modern European Union (EU) and the eighteenth-century United States (US). Apart from sound methodological considerations, both the use of federalism lenses to analyse the EU as a whole (Bednar, et al., 1996) (Burgess, 2000) (Burgess, 2012) (McKay, 2001) (Nicolaidis & Howse, 2001) (Filippov, et al., 2005) (Ansell & Di Palma, 2004) (Kelemen, 2004) (Menon & Schain, 2006) (Trechsel, 2006) (Glencross & Trechsel, 2010) and the EU economic governance (von Hagen & Eichengreen, 1996) (Hosli & Borzel, 2003) (Zahariadis, 2013) (Csehi, 2020) (Zgaga, 2023), as well as the comparison between the US and the EU (McKay, 1999) (Fabbrini, 2007) (Schutze, 2009) (Schelkle, 2017) are corroborated by the presence of a well-established literature. The contribution of this book is to make not only a static comparative analysis between the two polities, but also to offer an explanation of the fiscalisation process.

The author begins by justifying the choice of cases, emphasizing that the primary criterion is to stick to the goal of the research, that is, to test his theory on the emergence of fiscal powers in federations. Therefore, the author opts to focus on "coming-together" federations, where member states decide to pool some of their fiscal power to the federal level. The distinction between coming-together federations and federations by disaggregation follows a well-established literature (Stepan, 1999). This choice is critical because it is directly related to the research question, which revolves around the emergence of federal fiscal powers in previously state-dominated fiscal systems. The author acknowledges that comparing the highly centralized modern USA with the more decentralized EU has faced criticism, as the differences between these two entities seem profound. To address this, the author adopts a comparative approach that compares the EU and the USA at similar points in their fiscal development. This aligns with the suggestion to analyse both polities during their early years, a perspective the author refers to as a "long-term, historical perspective". By doing so, the author aims to counter critiques that the differences between the two entities amount to a qualitative gap.



Historical institutionalism is the primary theoretical approach, whose advantage for this research is that it emphasizes the importance of historical context and institutions in shaping behaviours and outcomes. The author utilizes process tracing, a method that allows for the examination of causal mechanisms over time. Process tracing enables the researcher to understand not only the timing of significant events but also their sequence and the involvement of pertinent actors.

The author conducts document analysis as a primary method for gathering information needed to test the hypothesis. The document analysis process includes the collection of primary sources, primarily official documents such as legislative texts, declarations, speeches, press releases, and historical records. These primary sources play a crucial role in understanding the historical context and motivations of the actors involved. The analysis of the documents is carried out in the chapters from 2 to 5.

Those chapters are well-constructed because they are capable of picturing the interests and – especially for the US case – even the emotions of the participants to the discussions on fiscalisation while systemically classifying the findings into the positive and negative consequences of respectively the status quo and fiscalisation. The discussion of both cases is preceded by brief historical introductions, which are helpful in order to contextualise the debates, thus making the book intelligible also to a non-specialised audience of readers. The presence of numerous extracts of the documents of the discussions, both from the federalist and anti-federalist authors in the US case and the EU member states' contributions to the 'Five Presidents' report', adds a deep historical perspective to the work and makes the reading particularly captivating.

The main empirical observation of the book is that, while the two polities started with similar characteristics, i.e., the lack of the federal power to tax and a sovereign debt crisis of their respective member states, there is a substantial difference between the respective outcomes. While the US evolved in a fully-fledged fiscalisation, the EU was characterised by a process of quasi-fiscalisation, which led to the establishment of a system of fiscal regulation. In order to account for such a difference, the author points at two divergences. First, while in the US the sovereign debt crisis at the level of member states was caused by the War of Independence, which was considered by member states as a common cause, in the EU it was mainly due to the fiscal policies of member states. For this reason, the idea of moral hazard, and the subsequent blame shifting, was one of the most crucial elements in the discussion



between member states of the European Union. Such a dynamic is not registered in the US case. Second, the US and the EU took divergent approaches in establishing their economic unions. The US initially opted for establishing a federal fiscal union before progressing to a comprehensive monetary union. Conversely, the EU initially established a monetary union and has only recently made an attempt at creating a federal fiscal union, which remains a relatively distant undertaking.

The differences between the two cases regard also the nature and arguments of the discussion among political actors. Woźniakowski enumerates four key differences. First, while Americans had the advantage of discussing a clearly defined written proposal, i.e., the Constitution, enabling them to support or oppose specific clauses and engage in meaningful debates, Europeans faced a different process. In the EU, member states were initially asked for their opinions on fiscalisation, but the ultimate report and the selection of preferred opinions rested with the Presidents of EU institutions, leading to a less transparent, widespread, and structured discussion. Second, while in the US the time horizon that the founding Fathers had in mind was centuries-long, the EU discussion was characterised by short-termism. Third, in the US one of the ideas that proved more successful was the critique of the requisition system, that was the main source of financing of the supranational level under the Articles of Confederation, relying on contributions from member states. Such arguments were crucial in order to persuade political actors to establish a federal power to tax. On the contrary, in the EU, member states focused on the preconditions for the introduction of a European fiscal union, some of which were contradictory or politically unbearable by some of them. Fourth, and linked to the above-mentioned second substantial difference, the discussion on the EU fiscalisation pertained specifically to the euro area and not the EU as a whole. This factor added complexity and ambiguities to the discussion, compared to the US case where such a differentiation was not in place.

The contribution of this book not only to the literature but also to the political and institutional discussion around the European and US institutions is twofold. On the one hand, it conceptualises the fiscalisation process and tests it according to historical data. This is the main lesson of the work according to the author:

“that the EU could perhaps learn from the US experience in forging a federal fiscal union is twofold. First, an internal threat is the necessary condition to trigger the process of fiscalisation of the central government



and consequently lead to the creation of a federal fiscal union. Second, the lack of a federal power to tax, and thus the existence of a vertical fiscal imbalance, so that central government is financially dependent on contributions from the states, may trigger a chain of events leading to popular protests that can threaten the very existence of the Union. One solution to such a crisis is the creation of a more ‘energetic’ federal government with the power to tax as its most important competence” (p. 149).

The second contribution is the enucleation of the paradox of fiscal integration. Such a paradox means that an unlimited federal power to tax, as it was negotiated in the US case, could lead to lower tax rates for citizens in any member states compared to other arrangements like the requisition system. On the contrary, a less integrated fiscal system at the supranational level could constrain more its member states than a framework which is based on a fully-fledged federal union.

For these reasons, this book is timely and critical for the future of the EU. The book was published in a crucial year for the EU, characterised by the Russian aggression of Ukraine, the conclusions of the Conference on the Future of Europe, the development of the debate on the reform of the EU fiscal rules, the progressive unfolding of the National Recovery and Resilience Plans in the Next Generation EU framework, the energy crisis, and the economic dependence of European states in the provisions of critical raw materials key for the green and digital transition. Comparing the performance of the EU and the US face to the current global disorder and looking at institutional differences as one of the factors that could explain eventual divergences is a relevant research question. It is also possible, thanks to the contributions from the economic literature, to estimate how the European macroeconomic situation could have been different today if a central fiscal capacity was in place during the great financial crisis (Codogno & van den Noord, 2020). Hence, the book stimulates also the federalist discussion, which gained momentum after a period of relative stagnation since the rejection of the Constitutional Treaty.

Woźniakowski’s work, however, is not immune to criticism. Some of them are related to the concept of fiscalisation and the related theory. As a matter of fact, the author could have motivated more strongly the choice for introducing a new theory of fiscalisation instead of using existing theories in the field of policy change. Is the causal mechanism related to the fiscalisation process specific and not applicable to other domains, for example to defence or foreign policy? Does it make sense, for the sake of parsimony, to introduce a theory applicable only to the creation of fiscal unions? Finally, the variation of the dependent



variable, from complete fiscalisation to quasi-fiscalisation, is not covered completely. This last critical point, however, is understandable considering that the purpose of the book is to build a new theory and stimulate a scholarly discussion.

Other possible flaws are related to the case selection strategy. As a matter of fact, in history, the number of fiscal federations by aggregation with sufficient data availability to make historical analyses is limited. Such an aspect could weaken the overall theorisation, as there could be fewer case studies than potential explanatory variables which are not discussed in the book. The author, moreover, does not mention cases of failed fiscalisation processes. Do they exist in history? If so, which are the factors that explain why some member states fail to undertake the process of fiscalisation?

Some other points pertain the elements of the causal chain leading from the threat to fiscalisation. The author implicitly assumes that there is a biunivocal relationship between interests and ideas. According to this view, actors behaved as if discussing ideas was the best way to promote their own interests, and the ideas they shared in the discussions corresponded to their position. But what if the position of actors had a political or strategic motivation? This could be especially true for the EU case. For example, as mentioned above, a member state could have required a strong precondition for the establishing of the EU fiscal union not because it was interested in that peculiar precondition, but in order to make fiscalisation fail as it becomes politically unfeasible. Moreover, a similar position from two actors could have different meanings, according to which is the audience of the message. Overall, ideas are not necessarily transparent vehicles of interests, but they can strategically serve them. Putting the data in the context of studies of political or diplomatic communication could have been useful in order to strengthen the analysis.

Finally, while the differentiation between internal and external threat is discussed extensively, some other characteristics of threats are not introduced adequately. For example, in an influential paper published in the most critical period of the COVID-19 pandemic, Buti (2020) made a distinction between symmetric and asymmetric crises. In that contribution, the then head of cabinet of the European commissioner for Economy suggests that such a differentiation of crises explains the failure of fiscalisation in Europe in response to the financial crisis and the partial success of the establishment of the Next Generation EU. Woźniakowski acknowledges the limitations of his study, particularly concerning the analysis of the impact of the COVID-19 pandemic on the EU's fiscal policies. While the study briefly



references these developments, it refrains from conducting an exhaustive analysis due to the timing of the book's completion and the evolving nature of the crisis. Rather than being a criticism to the study, it calls for an update in order to test the fiscalisation theory according to the latest developments of the EU fiscal framework.

In conclusion, this work brings an important and original contribution to the discussion on the future of Europe and the comparative analysis between the EU and the US. Future contributions from the author could also address the critical points that emerge from this review, further refining the fiscalisation theory.

¹ PhD candidate in Politics, LUISS Guido Carli University. E-mail: fbonomi@luiss.it

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