THE IMPACT OF THE ECONOMIC CRISIS AND OF TAXATION ON EUROPEAN SECURITY POLICY

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Abstract

Common Foreign and Security Policy (CFSP), together with the Common Security and Defense Policy (CSDP) were defined in the Maastricht Treaty as policies which encompass all matters relating to the security of the European Union, including establishing, in the future, of a common defense policy. In the EU, tax policy is subject to the Treaty establishing the European Community. In addition, Maastricht Treaty requires members of the Monetary Union to limit budget deficits to 3% of their GDP.

1. Introduction

Romania's Integration in the European Union necessarily implies the correlation of the Romanian taxation system with the organization's principles. The EU common tax system, compared to other areas, is of major importance, in the meaning of the subsidiarity principle.

The economic and financial crisis that began in 2007 in the United States and then spread to most countries of the world has influenced the Common Security and Defense Policy (CSDP). Like any crisis, this one tends to alter the fundamental paradigms both in the financial - economic environment and in the security environment as well.

2. The impact of the economic crisis and of taxation on European security policy

Wrong decisions in the pre-crisis period, as salary increases and additional budgetary expenditures by excessive growth of state budget deficits led the countries to make increasingly expensive loans and to have even bigger difficulty in attracting financing for budget deficits. In this particularly volatile and hardly predictable context, budgets of all EU countries were built by adopting austerity measures that reflected, to a large extent, on defense budgets.

It can be said that the sovereign debt crisis is also a consequence of the structural weaknesses of European economies. Excessive indebtedness constitutes a security vulnerability in the context in which at EU level, there are discussions on a possible Treaty on fiscal stability, which in fact is about surrendering sovereignty to European institutions (European Commission) by the states, which will have budget deficits higher than 3% of GDP, structural deficits higher than 0.5% of GDP or shall record unsustainable sovereign debts.

It is opinioned that managing the state budget is one of the sovereignty elements which can not be given away without the risk of creating a significant gap in the national security system. This ceding of sovereignty is, according to many analysts, a gesture whose medium and long-term consequences are very difficult to estimate. However, economic and financial vulnerability, which determines the need for intervention of international financial institutions (be they European, World Bank or IMF), is a consequence of the structural deficiencies that have not been coherently addressed by governments in the last 10-15 years. Thus, it can be said that good governance is a very important element in the concept of national security.

On 22 September 2003, the European Council decided that the EU should acquire the ability to manage the financing of common costs of future military operations of the Union. Thus, there was established a mechanism to manage operations' common costs financing, called ATHENA.

Athena mechanism acts on behalf of participating Member States or, in the case of specific operations, of contributing states. To finance military operations carried out under the EU, Member States are required a contribution determined on the basis of the criterion of gross national income (GNI). Therefore, the contribution of each Member State is proportional to the GNI share of that Member State in the agreed total GNI of the Member States who are required to contribute.
We need to note that Athena mechanism finances only the common costs of missions, such as headquarters offices, some infrastructure works, medical services, providing satellite imagery etc..

Funding civilian missions may be done out of CFSP resources, expenditure that in 2012 accounted for 4% (327 million EUR) of the EU budget for foreign affairs. For military missions, Member States and contributing states assume most of the costs, except common costs, totaling about 10% of the total costs of a mission, covered by Athena mechanism.

EU tax policy strategy argues that each Member State is free to choose the tax system they deem most appropriate, provided it complies with EU rules. In this framework, the main priorities of EU tax policy are removing obstacles that prevent the cross-border economic activity, combating harmful tax competition and promoting broad cooperation in the financial administration to ensure control over fraud and to combat it. A greater coordination of fiscal policy would provide support for wider political and security objectives of the EU through the fiscal policies of the Member States, according to the latest provisions of the Europe 2020 strategy for smart, sustainable and inclusive growth.

In parallel, there is the Common Foreign and Security Policy as one of the main instruments for conducting EU external relations. As part of the CFSP, there was created the Common Security and Defense Policy (CSDP), with the potential to establish in the future a common defense structure. In December 2003, Member States adopted the European Security Strategy and established its essential missions, as well as priority areas for action: fight against terrorism, the strategy for Middle East, the policy for Bosnia-Herzegovina.

The European Union has identified a number of actions, such as humanitarian and rescue tasks, peacekeeping and crisis management, in which the military can intervene. To participate in such missions, EU has set up a rapid reaction force, which will be strengthened in the years ahead. Moreover, in order to respond to emergency calls, the European Union has implemented a new concept - Battle Groups, consisting of 1,500 troops each. Two groups are ready for action at any time. Each can be mobilized within 10 days following a request from the Council of the European Union.

By CFSP and ESDP, the European Union is trying to slowly shape a European policy, which should be added to the global role it plays in the economic and trade areas. But this dimension is more difficult to build, because, despite the will to transform the CFSP in a successful policy, sometimes governments are not willing to make changes in their national policy in relation to a country or a region only for the sake of European solidarity. The most cogent example is the current crisis in Ukraine.

On November 30, 2011 there was presented the Report on the impact of financial crisis on the defense sector in the EU Member States. It was noted with concern that because of the financial and economic crisis and of the debts, there were made unprecedented cuts in defense budgets of most Member States; another concern was the possible negative effects of such measures on military capabilities and therefore on the EU capacity to effectively take its responsibilities regarding peacekeeping, conflict prevention and strengthening international security in accordance with the UN Charter, where Member States fail to compensate for these losses through a coordination and cooperation at European level. In this regard, there was emphasized that the defense is a public good that has an impact on the security of all European citizens and that all Member States should contribute in a spirit of cooperation, joint ownership and efficiency in terms of cost.

Uncoordinated reductions in defense budgets could lead to a complete loss of certain military capabilities in Europe. We should bear in mind that the intervention in Libya clearly demonstrated that even a coalition of European countries is unable to perform an operation of this kind without U.S. support.

There are still disproportionate dependence on the U.S. for defense, given that the U.S. has come to bear 75% of defense spending of NATO and therefore the need for European allies to take upon themselves a bigger part of defense spending. Recent budget cuts are continuing a pattern of insufficient investment and expenditure on security and defense, persistent pattern in the Member States for over a decade. Without neglecting the different levels of ambition, we need to point out that the annual aggregate defense expenses of the Member States amount to 200 billion Euro, which represents only about a third of the U.S. defense budget, an amount that is, still, considerable and proves the defense cost from out of Europe.

Most of these funds are spent on the basis of uncoordinated national decisions on defense planning, which determine not only large and persistent discrepancies in terms of capabilities, but also capacities in excess and unnecessary duplication, as well as a fragmented industry and markets; this leads to the fact that the EU has neither the visibility, nor the resources or the influence that one would expect to come from the 200 billion Euro meant for spending.

Research and innovation in the field of security and defense are of particular importance, representing the foundation of the competitiveness and resilience of the European defense industry. It also has a major role in achieving the objectives of the Europe 2020 strategy on sustainable growth, current activities in research and technology being of key importance for the successful use of future technological developments. But the fact
that only 1% of the total defense spending of EU countries are spent on research and technology, in some countries even well below this percentage, while 50% of the funds continue to be allocated for staff, requires with priority to exclude this area of spending cuts.

Security research should be kept as an independent component in the following program Horizon 2020, and the study area of the theme dedicated to security should be broadened to reflect the need for innovation and technology transfer between civil and defense industry. The theme should retain its predominant civil character, whilst taking account of all relevant requirements for defense within programs and projects.

The potential of economies of scale of development projects remains very little used, almost 85% of research and technology expenditures is still made at national level, and most of the remaining sum is spent bilaterally and not multinational, leading to fragmentation of the money between Member States.

In this context, there appears the need to make progress in consolidating the technological and industrial foundation of the European defense, given the increasing complexity of technology, the increasingly fierce international competition and the cuts in defense budgets. It follows that the defense industry can no longer be sustained solely nationally in any of the EU Member States. Although there was reached a certain level of concentration in aerospace industries, land and naval equipment sectors are still highly fragmented between countries.

Finding new forms of funding at the EU level, particularly in the context of a new multinational financial framework is a priority. There should be taken into consideration the possibilities to give Member States, out of the EU budget, support to achieve the objectives of the Common Security and Defence Policy in a more efficient manner from the point of view of costs.

And last but not least, EU funds should be used to foster cooperation in education and training, promoting the creation of networks between the defense industry, research institutes and academia, and through the instrument for stability to be financed activities of the European College for Security and defense, oriented on the training of civilian and military experts in crisis management and CSDP, as well as and promoting a shared culture of security.

3. Conclusions

As a corollary of conclusions results importance that taxation and reforms in this area have for the economic development of any country. For the EU as a conglomeration of states and an exponent of economic globalization, taxation has a strong influence on many economic processes taking place within this structure and in each Member State with direct implications for the national and European security.

The EU tax policy is imposing itself in a difficult manner in the European space, due to obstacles it faces, most of them caused by the Member States themselves, which are reluctant to applying common rules on the removal of various forms of tax discrimination, double taxation or tax evasion.

The main instruments that the European Union intends to use to bring closer taxation in the Member States with similar preoccupations in the defense field as well are tax harmonization and tax cooperation between Member States.

Tax harmonization implies a process of compatibility between national legal rules of component states and between national legal rules and EU regulations (acquis), which actually translates through the requirement of national tax systems to comply with EU rules, a fundamental obligation following the principle of prevalence of EU rules in report with national rules.

Tax harmonization is based on the legislative harmonisation, which should cover all types and forms of taxation prevailing in EU states.

Achieving such an objective with major implications for the common European security and defense faces a number of difficulties:

- at the European Union level there his not been outlined yet a clear idea of the systematic adoption of Community rules meant for harmonization and unification of the Member States tax laws;

- national legislation on direct taxes are particularly resistant to change from indirect taxation (eg. VAT);

- until now it has not considered worrisome that there are great differences regulation of taxes (as otherwise, among other taxes, there are no obvious differences in treatment).

Difficulties triggered by the harmonization effort has led the European Union to try to use some more effective and easily means to be accepted by states, namely by using other means of tax cooperation between Member States.

As a full member of the European, as well as Euro-Atlantic community, Romania directs its reform efforts related to the overall economic system, as well as the tax system in order to align with European standards, outlining new approaches to contemporary tax.

References:
