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No Borrowing Without Taxing? Fiscal Solidarity of Next Generation EU in Light of the American Experience

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Abstract

This article argues that the EU response to the pandemic, the Next Generation EU (NGEU), dubbed a “Hamiltonian moment” for Europe, can be better understood if compared to the US under the Articles of Confederation. The key aspect of the original Hamiltonian moment was the assumption of states’ debts after the Union was given tax power. None of this happened with the NGEU. The EU was not given any significant new sources of revenue, apart from some environmental levies, and was only allowed to borrow more on the financial markets to finance new fiscal solidarity mechanisms. In the US, this kind of borrowing power gave rise to monetary financing of the debt and enormous inflation. Instead of backing the enlarged borrowing powers with a fiscalization process leading to tax powers, the EU created a hybrid system of temporary, limited quasi-fiscalization in the form of the NGEU, which has legitimacy gaps. Simultaneously, the EU introduced enhanced fiscal regulation with conditionalities in the form of the new European Semester (an annual EU cycle of economic and fiscal coordination) tied to the allocation of the NGEU funds. Additionally, the EU has only promised to work in the future on various forms of revenue needed to pay the new debt. Hence, I will show that the NGEU could be better described as a “Morrisian moment” for Europe, as Robert Morris, the superintendent of finance of the US (1781–1784), was the very first finance minister of a similar kind of a union, with the power to borrow but no power to tax, governed by the unanimity rule in fiscal matters, which led to the failure of his proposals for national revenue.

Keywords

central fiscal capacity; comparative federalism; democratic legitimacy; economic governance; fiscal federalism; fiscal solidarity; fiscal union; fiscalization process; tax power

Issue

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1. Introduction

The core of a state is money, and the state’s ability to raise it independently—mainly via taxation—is perhaps the most important feature of state capacity because it is “a necessary condition for everything else states do” (Kiser & Karceski, 2017, p. 76). At the same time, the importance of this power makes it difficult for the states to relinquish some of it to the higher level in political systems of multilevel government, such as the EU or the US. Many scholars used federalism to examine the developments of the EU (e.g., S. Fabbrini, 2017; Schütze,

2009), and some have compared the EU to the early US history, focusing mainly on the policies conducted by Alexander Hamilton (Gaspar, 2015; Henning & Kessler, 2012; Steinbach, 2015), although a few focused on the period when the fiscal structure of the US resembled the EU—the pre-Constitution US (see Georgiou, 2022, pp. 142–143; Sargent, 2012; Woźniakowski, 2018, 2023). Equally, the EU fiscal response to the Covid-19 pandemic, the Next Generation EU (NGEU) has attracted scholarly attention since its inception and has been analyzed from many perspectives, including its legal nature (De Witte, 2021; F. Fabbrini, 2022), its social component (Bekker,

2021), and its origins (S. Fabbrini, 2022; Genschel & Jachtenfuchs, 2021). However, a clear definition of the concepts commonly applied to describe the NGEU, such as borrowing, taxing and spending powers, fiscal capacity, and fiscal union, was often lacking.

By situating the NGEU within a clearly defined theoretical framework of the patterns of fiscal integration and in comparison with a polity representing similar patterns of such integration (a significant central borrowing powers without significant taxing powers), i.e., the US under its first Constitution—the Articles of Confederation (1781–1789)—this article aims to contribute to our understanding of the fiscal and economic integration of the post-Covid-19 EU. The contribution of this article is also related to the debate initiated by the seminal article by Kelemen and McNamara (2022) on the role of threats in multilevel polity development. Indeed, it was a military threat that pushed the American colonies towards the creation of an independent confederation. However, as I showed in my recent monograph, an internal (socioeconomic) threat, and not an external (military) threat, was necessary in order to push the nascent US confederation on the path towards a federation, including the federal power to tax, arguably the most important feature of the new Constitution of 1787 (see Woźniakowski, 2022, for details).

This article will argue that the EU response to the pandemic, mainly in the form of a special recovery fund (NGEU), dubbed a “Hamiltonian moment” for Europe, can be better understood if compared to the pre-Constitution US. The key aspect of the original Hamiltonian moment was the assumption of states’ debts after the Union was given tax power. None of this happened with the NGEU. The EU was not given any new significant sources of revenue, apart from some environmental levies, and was only allowed to borrow more on the financial markets to finance new fiscal solidarity mechanisms. In the US, this kind of borrowing power gave rise to monetary financing of the debt and enormous inflation. Instead of backing the enlarged borrowing powers with a fiscalization process leading to tax powers, the EU created a hybrid system of temporary, limited quasi-fiscalization in the form of the NGEU. This system has accountability gaps as the European Parliament had largely been excluded from both its negotiation and implementation. Simultaneously, the EU introduced enhanced fiscal regulation in the form of the new European Semester (an annual EU cycle of economic and fiscal coordination) tied to the allocation of the NGEU funds. Additionally, the EU has only promised to work in the future on various forms of revenue needed to pay the new debt. Hence, I will show that the NGEU could be better dubbed a “Morrissian moment” for Europe, as Robert Morris, the superintendent of finance of the US (1781–1784), was the very first finance minister of a similar kind of a union: with a power to borrow but not to tax, governed by the unanimity rule in fiscal matters, which led to the failure of his proposals for national revenue.

Hence, I aim to answer the following research questions: Which patterns of fiscal integration, as shown in the introduction to this thematic issue (Woźniakowski et al., 2023), does the NGEU represent, and how does it compare with the patterns of US fiscal integration under the Articles of Confederation? Are there any lessons for the EU from this American fiscal history?

This article proceeds as follows: In the next section, I present the theoretical framework, focusing mainly on fiscal capacity building in its two modes: first, an autonomous mode, that is, tax capacity in the revenue side of the budget and spending capacity in the expenditures side of the budget; second, a dependent mode, that is, budgetary capacity in the revenue side of the budget and transfer capacity of expenditures side of the budget. Section 3 focuses on the fiscal structure of the US under the Articles of Confederation (1781–1789), which resembles the most the debt-based financial architecture of the NGEU, followed by Section 4, which contrasts this American experience with the European one and demonstrates the main similarities and differences between the fiscal structure of the US under the Articles of Confederation and the NGEU. Section 5 concludes with potential lessons for the EU.

2. Theoretical Framework

In recent years, we have witnessed significant, even paradigmatic, changes in how the EU manages its own fiscal sphere (potentially leading to the creation of EU taxes) on the one hand, and how it influences the fiscal sovereignty of its member states, on the other (Zgaga, 2023). These two distinct processes have been dubbed “fiscalization,” in my earlier work (Woźniakowski, 2022) and fiscal regulation, respectively. These two instruments of integration—capacity (preceded by fiscalization) and regulation—should not be confused with each other, even if both represent forms of fiscal integration (cf. Genschel & Jachtenfuchs, 2013). These processes started with the introduction of the common currency in Europe and were strengthened during crises, albeit in different ways. While the euro crisis triggered the enhancement of the fiscal regulation regime of the EU, leaving the fiscalization process intact, apart from the creation of the lending mechanisms based on the borrowing power which the EU has been enjoying for over 40 years (e.g., the EU-budget-based European Financial Stabilisation Mechanism; cf. Cabral, 2021); the Covid-19 crisis led to the strengthening of two instruments of fiscal integration specifically in relation to the capacity instrument. Quasi-fiscalization has been initiated in the form of the NGEU with an enlarged EU borrowing, and this NGEU was linked with the second instrument of integration—fiscal regulation, in the form of the enhanced conditionality-driven European Semester. As a result, the European Semester now also has the “carrots” in the form of financial transfers from the Recovery and Resilience Facility, which is the largest part of the NGEU,

and not just “sticks,” in the form of the financial sanctions for not respecting the debt and deficit criteria of the Stability and Growth Pact.

This article builds on this crucial differentiation between fiscalization and fiscal regulation. However, it follows a more nuanced conceptual framework of the patterns of fiscal integration, including instruments, sides of the budget, and modes (autonomous or dependent), as defined in the introduction to this thematic issue, which is summarized in Table 1.

The introduction to this thematic issue (Woźniakowski et al., 2023) sheds new light on the nature of the ways in which the public finances are raised, spent, and governed in a multilevel government. It argues that there is a need to distinguish both fiscal capacity and fiscal regulation based on the entity it affects the most—whether it is the central/supranational level or constituent units/member state level of government. As Table 1 shows, fiscal integration is divided not only into capacity and regulation, but those two instruments of integration are further divided based on the mode, i.e., the level of autonomy that a particular level of government (mostly the EU or federal government in this case) has. If the central/federal budget is based on independent sources over which the centre has power, for instance, federal taxes, we can talk of tax capacity (preceded by fiscalization process). On the other hand, if the budget is composed of contributions from the states (so the centre does not have power over them, as those resources depend on the member states/units), we can talk about budgetary capacity but not tax capacity. Both the US under the Articles of Confederation—or Confederation USA (CUSA)—and the EU today have budgetary capacity but not tax capacity, as they lack significant power to tax. This similarity in budgetary capacity is coupled with a crucial difference when it comes to the expenditure side of the budget in the capacity axis. While the CUSA enjoyed spending capacity as the central budget was spent by the Union itself (i.e., the

Confederation Congress), the EU lacks such a spending capacity, as the EU institutions do not usually spend the budget themselves. Rather, the EU has a transfer capacity, as the large majority of the funds are distributed further to its member states, which then spend them on their respective territories. Similar differentiation is applied to the regulation axis of Table 1—revenues and expenditures of both levels of government can be regulated, as explained in more detail in the introduction to this issue (Woźniakowski et al., 2023).

I focus on the capacity instrument of fiscal integration, especially on the revenue side of the budget, to show that both the NGEU and the US under the Articles of Confederation have a “budgetary capacity” based on non-independent resources, mainly borrowing and states’ contributions, but do not have “tax capacity” based on independent resources, meaning taxing power. When it comes to the expenditure side of the budget in fiscal capacity building, the CUSA at that time had spending capacity, as the Congress could spend the money itself. In contrast, the NGEU is an example of transfer capacity as the EU does not spend the money itself. Rather, it transfers the borrowed funds to the member states based on conditionality anchored in the implementation of the fiscal regulation framework (Country Specific Recommendations of the European Semester). Even though the European Commission does not spend money on behalf of the EU, it has oversight authority on the spending side of the budget via National Recovery and Resilience Plans.

In principle, the NGEU follows the old paradigm of lending mechanisms, which were successfully used in the past by the EU and were within EU law (see Woźniakowski, 2022, pp. 100–104). The loans taken by the Commission on the financial markets were then distributed to the states. The Commission lent via three main schemes: the European Financial Stabilisation Mechanism for members of the euro, the Balance of Payment was used for non-euro EU members, and finally,

Table 1. Instruments and modes of EU fiscal integration.

		Instruments of fiscal integration			
		Fiscal capacity		Fiscal regulation	
Mode of fiscal integration (autonomous or dependent)		Autonomous: Supranational institutions involved	Dependent: Intergovernmental institutions only	Regulation of the centre (autonomous or dependent)	Regulation of the units (autonomous or dependent)
		Revenue capacity	Tax capacity based on independent resources (fiscalization)	Budgetary capacity based on non-independent resources	Revenue regulation of the centre
Side of the budget	Expenditure capacity	Spending capacity of independent or non-independent resources	Transfer capacity of independent and non-independent resources	Expenditure regulation of the centre	Expenditure regulation of the units

Source: Woźniakowski et al. (2023, p. 2).

non-EU members could borrow via Macro-Financial Assistance. Loans had to be repaid, and the EU was, in a way, lending its good credit rating to the countries that did not have such a good rating and would have had to pay more for the loans on the financial markets. Thus, the loans were cheaper, and this was their main benefit. However, this is not the case for all the EU members, as some of them enjoy better credit ratings than the European Commission, and for this reason, they may not be interested in the loan part of the NGEU. Indeed, this is true not only for Germany or Finland, with traditionally good credit ratings but also for France—the difference in spreads between France and the EU was 0.37% as of March 2023, a rise from 0.06% only two years earlier (Kraemer, 2023). Indeed, as of February 2023, the Commission has distributed €144 billion under the Resilience of Recovery Facility, in which the amount for grants (€96 billion) was two times higher than the amount for loans (€48 billion; European Commission, 2023, p. 4). Hence, there is a risk that a large part of the NGEU loan component will never be used and, for this reason, the two parts of the NGEU should be kept separate. Nevertheless, both parts are based on borrowing, a method similar to the financing of the first American Union, before the federal Constitution of 1787 was ratified, which is the focus of the following section.

3. The US Under the Articles of Confederation (1781–1789)

The US emerged as a result of a fight for the independence of the 13 North American colonies from the British Empire. One of the most pressing concerns after the start of the Revolutionary War (1775–1783) was the issue of money. All the states agreed on their common objective—*independence*—but the fact that the war started precisely because of the taxes imposed without their consent did not make financing this common endeavour less difficult. As this was the very power that the states wanted to secure in their own hands, to avoid the same situation as before 1776 (that they had not given consent to the taxes imposed on them), the 13 states were not willing to transfer the “*power of the purse*” to the newly created Union. The government of the Confederation consisted of a single institution, Congress, which ensured equal representation for all the states. There was no executive or judiciary. Hence, the states gave this Congress the power to issue debt on their credit, to print currency, and to ask for states’ contributions, but not the power to tax. As a result, the Union between 1775 and 1789 relied on three main sources of revenue: (a) printing paper money, (b) borrowing, and (c) requisitions from the states, which was the equivalent of the contributions from the member states to the EU budget (Ferguson, 1961).

The US declared independence on 4 July 1776, and one year later, the first Constitution was drafted and sent to the state legislatures for ratification. However,

the process took another four years, and only in 1781 were the Articles of Confederation ratified. Hence, for the first five years, the US had no legal basis as a union. This did not prevent the Continental Congress from exercising its powers, mainly regarding the conduct of the war and its financing. For instance, all the 40 emissions of the Continental paper currency—the Continental dollar—took place before 1780 (1775–1779), and this method of financing federal expenditure before 1778 provided 86% of all the revenues, the rest being borrowing, mainly domestic. In the second phase of the war effort (1778–1781), due to a dramatic depreciation of the Continental dollar (by 1781, to obtain \$1 in specie, i.e., hard money in silver or golden coins, it took \$100 Continental dollars), borrowing became the major method of public finance. Total borrowing covered 61% of the war cost, of which 7% were foreign loans, and the rest domestic borrowing in the form of certificates of debt; 34% were currency emissions, while the requisitions provided only 4% of all the war cost (Baack, 2001, p. 654).

This model of financing the common needs prevailed because the individual states failed to contribute as much as Congress requested. In social sciences, such a phenomenon is called a *free-rider problem*, which one can observe if a state benefits from the common goods, such as security—or externalities of policies of another state—without paying for them. Indeed, as one commentator observed, the Articles of Confederation:

Gave to the confederation the power of contracting debts, and at the same time withheld the power of paying them....It provided the mode in which its treasury should be supplied for the reimbursement of the public credit. But over the sources of that supply, it gave the government contracting the debt no power whatever. Thirteen independent legislatures granted or withheld the means according to their own convenience. (Dewey, 1968, p. 49)

The states failed not only in a sphere where direct money transfer to the common coffer was involved but also in protecting the common currency from losing its value. As an institution without any taxing powers, it was asking the states to redeem the Common currency via local taxes and fees payable in Continental dollars, which would then be sent to the confederal treasury to be burned. This would save the value of the dollar and prevent inflation. However, the states did so to a limited extent and continued to issue their own paper money—resulting in huge inflation (Studenski & Krooss, 2003). When it comes to the second main source of Congress revenue—the requisitions—the picture is not optimistic either. In general, states failed to send the contributions of the value that Congress asked for. For instance, between 1777 and 1779, the states sent slightly over half of what they should have (58% or \$55 million out of \$95 million).

The third main mode of raising the confederation revenue was borrowing, which took three forms: domestic bonds, debt certificates, and foreign loans. The total sum the Congress borrowed amounted to £32 million (the states borrowed less, £23 million). When it comes to the total cost of war, loans covered one-third of the expenditure, while the remaining two-thirds came from issuing fiat (paper) currency (28% in Continental dollars and 39% in states' emissions; Perkins, 1994, p. 103). What is similar between NGEU and the US back then is the lack of tax capacity in both polities and backing of the central borrowing power with the states' taxing powers, the problem which the Union's very first finance minister, Robert Morris, tried—and failed—to overcome in an institutional environment of unanimity.

Robert Morris was born in Liverpool and emigrated to America to become a wealthy businessman and an important public figure. He served in many public bodies, both at the state level in Pennsylvania and at the Union level, in Congress and its many committees. His main role, however, started when he became a superintendent of finance (in 1781, a few months before the decisive battle with the British in Yorktown). His role was appreciated to the extent that he was even called “a financier of the Revolution” (Rappleye, 2010), and indeed he played an important role in securing the finances of the Confederation. Morris even used his personal funds for the war expenses and was decisive in securing foreign loans in Amsterdam in 1782 of \$2 million with a very good interest rate of 5%. This loan was important for the needs of the Union but came at an unfortunate time politically. It was a time when the states were debating the need for a national tariff (called impost), and one of the main arguments was that it would be difficult to convince foreign investors to lend to the Union if it did not have a steady source of revenue. By securing this loan before the states agreed on such a central tax capacity, Morris lost an important argument for the introduction of a national tariff.

Having said that, once the Dutch investors realized the fiscal problems the Union was facing, they included it in their risk assessment. Consequently, the interest that the Union had to pay rose to 9%. While the Dutch loans were non-political and came from private investors in Amsterdam (the main financial centre of Europe at the time, next to London), they came only once it was evident the US would win the war following the Yorktown battle of 1781. On the contrary, the French loans were basically an extension of Louis XVI's foreign policy and were provided in order to help Americans win the war. Thus, this source of foreign loans stopped after 1781.

Morris tried many methods in his battle to empower Congress with a taxing power. In one bold move, he decided to stop paying the interest to domestic bondholders, hoping that this would create social pressure in state legislatures whose green light was necessary for granting Congress a tax power. However, the decision of state legislatures to volunteer to pay their cit-

izens' confederal interest meant those hopes came to nothing. However, his main quest for independent revenue sources led to the drafting of two proposals on empowering the Confederation Congress with the power over impost; the fiscalization process failed as both proposals were vetoed, first by Rhode Island in 1781 and then when a modified proposal, with changes requested by this state, was made in 1783 and vetoed again, this time by New York (Studenski & Krooss, 2003). Unable to secure central tax capacity, Morris resigned in 1784. As a result, an entirely new Constitution had to be drafted in which a unanimity requirement was abandoned for the fiscalization process to successfully back the Union's borrowing powers (for details see Woźniakowski, 2022). Such borrowing power without taxing power existing in a political system governed by unanimity in fiscal matters are just a few examples of similarities between the 1780s US and the EU of 2020s, a topic I delve deeper into in the following section.

4. Contrasting the American Experience With the European

As the EU is heading towards a post-Covid-19 future, its architecture emerges at the intersection of divergent responses to past crises. EU response to the Euro crisis led to the strengthening of national budget constraints. However, the Covid-19 crisis was met with large-scale fiscal solidarity stimulus and a temporary withdrawal of these constraints. Since the introduction of the euro, many scholars have argued that the Economic and Monetary Union cannot respond adequately to (a)symmetric economic shocks as long as it is not embedded in a political and fiscal union (Cicchi et al., 2020; De Grauwe, 2006; Demertzis & Wolff, 2019). These arguments gained salience during the Covid-19 crisis (Woźniakowski & Maduro, 2020). It became obvious that national fiscal responses may be inadequate—especially in member states with high levels of prior debt—and inadvertently increase existing asymmetries. At the same time, the judgement of the German Constitutional Court of 5 May 2020 demonstrated that fiscal solidarity via the ECB's monetary backdoor may reach its (legal) limits. The €800 billion Recovery Fund (NGEU) based on the EU debt reacts to both weaknesses noted above: It avoids the legal constraints of the monetary backdoor and compensates for fiscal asymmetries. However, it is not clear how exactly this debt will be repaid as the EU still lacks its own significant tax capacity as it was only agreed on the EU's levy on plastic waste and the Carbon Border Adjustment Mechanism, leaving other potential sources such as a digital levy for further debate as it will “over the coming years work towards reforming the own resources system” (European Council, 2020, p. 8), which so far has resulted only in an institutional agreement in which different EU institutions agreed on a roadmap towards achieving that goal (cf. F. Fabbrini, 2022). However, it is far from certain if all of the modest taxes included

in this agreement, including digital levy or a Financial Transaction Tax, will ever be implemented. Such a debate on the future of the Economic and Monetary Union often draws its inspiration from the historical experience of other systems of multilevel government that succeeded in establishing a viable economic union, such as the US (Genschel & Jachtenfuchs, 2016). Contrasting these two polities does not imply that one regards the EU as a federation; it only signals that integration is quite similar to the coming together of previously independent states into a multilevel polity, just as in the US case (Burgess, 2009, p. 30).

I argue that the fiscal architecture of the NGEU resembles more the CUSA between 1776–1789, ruled by its first Constitution (the Articles of Confederation), rather than the US under its current Constitution, drafted in 1787 and ratified in 1789. There are five important similarities in the patterns of fiscal integration of the two polities. First, both polities, the CUSA and NGEU, could borrow from the financial markets, and these loans constituted an important part of their revenues. In the US case, it was one-third of the total cost of the war, while the NGEU funding consisted solely of funds borrowed on the markets. Second, both polities lacked tax capacity in the form of central tax powers, but at the same time, in both polities, the fiscalization process was initiated as there were discussions (and special committees created for this purpose) on specific proposals for enriching the central government with such a power of the sources of revenue independent from the states. In the US, two proposals for a national tariff failed due to a veto of a single state. In the EU case, so far, an interinstitutional agreement between EU institutions (Interinstitutional agreement of 16 December 2020, 2020) was reached in late 2020, in which a roadmap towards European taxes was put forward which is binding, but “the possibility always remains that member states may have to increase their share of national contributions to the MFF to repay the NGEU debt if no alternative source is found” (F. Fabbrini, 2023, p. 56). As part of this roadmap, only an insignificant levy on plastic, which is another form of member states’ contribution, and the Carbon Border Adjustment Mechanism have been introduced so far (see García Antón, 2023). Third, as the result of introducing budgetary capacity, based mainly on borrowing, without tax capacity, the individual states were *de facto* responsible for the payment of the central debt, mainly via contributions to the central budget for the debt payment, based on a special formula reflecting the wealth of individual states. Importantly, such borrowing with no taxing powers may create similar dynamics as in the US, where the financing of the Congress’ loans fell on the states, which used the means of direct taxation to repay this debt. This, in turn, led to tax rebellions constituting an existential internal threat, triggering the Philadelphia Convention and the creation of an entirely new Constitution, this time with federal tax powers as its most important federal competence (for a detailed explanation of this fis-

calization process, see Woźniakowski, 2022). Fourth, the unanimity requirement existed in both cases. The similar structure of key institutions in both polities, composed of the representatives of the states (the European Council and Continental/Confederation Congress) ruled by unanimity in fiscal matters, may lead to a deadlock in fiscalization. The fifth similarity is the insufficient democratic legitimacy, as in both cases, a popularly elected federal legislature was excluded from drafting or executing budgetary capacity. In the US, such a body did not exist at the time, as the Confederation Congress consisted of representatives from the states, each having one vote per state. That was one reason this Congress lacked tax power as such, the power was too great to be vested in a single body with limited checks and balances. It was a purely intergovernmental, and not supranational, institution to use the analytical framework of the introduction of this thematic issue. In the EU case, the European Parliament was largely excluded from both the drafting of the NGEU and its implementation (Crum, 2020).

Notwithstanding those similarities, three main differences have to be mentioned. First, the Confederation Congress enjoyed spending capacity as it did spend the money itself as opposed to the EU institutions, which have transfer capacity as the NGEU funds are transferred further to the member states (see Table 1). Due to the conditionality, the Commission has the authority to influence how the money is spent. However, it is a very different kind of power from the power to spend (cf Fasone & Simoncini, 2023). Second, while the US borrowing power was firmly based in Art. 8 of the Articles of Confederation and was permanent, the NGEU borrowing is limited in time: The funds need to be raised until 2026, and the EU loans need to be repaid by 2058. Third, there was no limit on the amount of borrowing in the US, while it is a very specific amount of €800 billion in the NGEU case. This leads me to the fourth difference: The NGEU funds cannot be used to tackle any current (or future) threats to the EU, such as Russia, while the borrowed funds in the US were used to finance the ongoing war. Finally, while the loans taken by the CUSA were used to provide the most fundamental common good—security—the NGEU largely fails in this regard as it does not finance any significant European-wide public good, such as common defence, but focuses on the national level instead. These similarities and differences are summarized in Table 2.

The way the NGEU is designed has a number of consequences for the development of the EU as a polity. First, the EU will not be able to mobilize large resources in times of crisis, as any future recovery mechanism would need to be negotiated among the member states, which can be both risky and lengthy. Second, the decision to rely on special mechanisms beyond the regular EU budget and to exclude the European Parliament raises questions about the accountability of such power and may undermine the EU’s democratic legitimacy. Third, the effectiveness of the EU may be damaged if a large part of the NGEU is never used. One of the main reasons behind

Table 2. Similarities and differences between the fiscal structure of the US under the Articles of Confederation and the NGEU.

Similarities	Differences
1. Borrowing on the markets (budgetary capacity)	1. US: spending capacity (by the centre); NGEU: transfer capacity (to the member states)
2. No taxing powers (no tax capacity)	2. Borrowing power: US (permanent); NGEU (one-off)
3. Central debt repayment based on member states contributions	3. US: no limit on borrowing; NGEU: limit of both time and amount
4. Unanimity requirement in tax matters	4. US: loans used to tackle an ongoing threat; NGEU: to tackle past threats
5. Insufficient democratic legitimacy	5. US: loans to finance common public good (common defence); NGEU: to finance national public goods

the introduction of the NGEU based on the EU loans was the fact that the EU can borrow cheaply on the markets. In fact, the entire financing of the NGEU is based on credit: The grants and loans for distribution to member states originate from loans the European Commission takes on the financial markets. The idea behind introducing the loan component, apart from its political goal to appease the demands of the Frugals (i.e., the group of NGEU sceptics led by the Netherlands), was that the EU could borrow much more cheaply than many member states. In a way, by using its excellent credit rating and then lending to its member states, the EU was lending its good credit rating and thus allowing (fiscally troubled) countries to pay less for their public debt. But this only makes sense if the EU rating is better than those of the individual countries. If this rating deteriorates, there is a risk that a large part of the loan component will never be used, as many countries could borrow on better terms than the Commission. This is true not only for traditionally “fiscally responsible” countries such as Finland, Germany, or the Netherlands, but it is true also for France, as shown in Section 2. It seems that the investors started to notice that an entity that does not control a source of revenue needed to pay off the borrowed funds and cannot extract this revenue directly from its population (firms or individuals) but has to instead rely on contributions from its member states, has a higher risk of default.

Overall, the NGEU does not represent a paradigm change in the development of the EU as a polity. Indeed, the NGEU, similarly to the traditional EU budget, the Multiannual Financial Framework (MFF), has a transfer capacity, meaning that its funds are further distributed to the member states, but not a spending capacity, i.e., the ability to spend the funds itself (see Table 1). In the capacity building axis of Table 1, the NGEU is a continuation of the dependent mode of capacity building. First, when it comes to the revenue side of the budget, it represents budgetary capacity based on non-independent resources. In the MFF case, it is largely contributions from the member states, while the NGEU

budgetary capacity is based on loans. These loans may then be paid off via contributions of the member states, as the agreed new “own resources” may not have the potential to generate enough revenues to pay off NGEU loans. Secondly, concerning the expenditures side of the budget, the NGEU is an example of the transfer capacity of non-independent resources to the member states.

5. Conclusions: Lessons for the Next Generation EU?

This article has shown the limitations of comparing the NGEU with the Hamiltonian fiscal policies. Instead, I argued that the NGEU can be better understood if compared with policies of Hamilton’s predecessor, Robert Morris, who was in charge of the finances of the Union in the 1780s when the US was governed by its first Constitution, the Articles of Confederation. The main lesson Morris could teach the EU is perhaps the following: In a federal union, it is easier to secure an agreement on the borrowing power of the centre than the federal tax power to pay this debt. In a unanimous environment, giving concession to one opposing state may not be enough to pass relevant legislation, as the experience of Morris showed and the journey with Rhode Island and then New York vetoing two proposals for a national tariff. In fact, Morris resigned in 1784 after his failure to convince the states to give the Union an independent revenue stream. This led to fiscal chaos and an existential internal threat, which was fundamental in securing the drafting and ratification of the new Constitution with a federal fiscal union (Woźniakowski, 2022). It remains to be seen if similar dynamics will be at play in Europe if the EU fails to match its borrowing power with sufficient tax power.

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Conflict of Interests

The author declares no conflict of interests.

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