CENTRO STUDI SUL FEDERALISMO
PERSPECTIVES ON FEDERALISM

ISSN: 2036-5438

Reform options for the EU budget – First reflections on the new departure for a new EU budget

by

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Perspectives on Federalism, Vol. 6, issue 3, 2014

Abstract

There is a long standing debate on the reform of the EU budget. According to the final agreement on the Multiannual Financial Framework (MFF) 2014-2020 signed in December 2013, the Commission will present, by the end of 2016 at the latest, a review of the functioning of the MFF. The review will be accompanied by a legislative proposal for the revision of the MFF 2014-2020. This revision could provide an important occasion and stimulus to reform the financing of the budget and to readjust the spending structure.

Key-words

EU budget, Multiannual Financial Framework 2014-2020

1. Introduction

According to the final agreement on the Multiannual Financial Framework 2014-2020 (MFF 2014-2020) signed in December 2013[I], the Commission will present, by the end of 2016 at the latest, a review of the functioning of the MFF. The review could be accompanied by a legislative proposal for the revision of the MFF 2014-2020. This revision provides an important occasion to reform the financing of the budget and to readjust the spending structure. In this respect Jean-Claude Juncker, European Commission President has already said that: "The mid-term review of the Multiannual Financial Framework should be used to orient the EU budget further towards jobs, growth and competitiveness". The Juncker plan, as it is now known, published in November 2014, will already have an impact on EU budget spending and in May 2014 a high level group under the chairmanship of Mario Monti started work with the objective of undertaking a general review of the own resources system.

However, and besides the determination to improve the EU budget, the reform efforts of the EU budget and of the MFF are not new. The latest attempt dates back only to 2005 when the European Council, after having reached an agreement on the MFF 2007-2013, invited the Commission to undertake a full, wide ranging review covering all aspects of EU spending, including the Common Agricultural Policy (CAP), and resources, including the UK rebate.[II] In contrast with the current attempt, in 2007 the Commission launched the review with a broad public debate, and delivered the conclusions of this process in 2010. Some of the ideas discussed were later incorporated by the European Commission in its proposals for the MFF 2014-2020. However, after a very long and conflictive negotiation, the agreement on the MFF 2014-2020 has been received with mixed feelings. On the one side there are some innovations with regard to the expenditure structure, but there is, compared to the 2007-2013 period, an overall reduction of resources of 3.5% in commitments and 3.7% in payments over the next seven years and almost no progress with regard to the financing of the budget.

Dissatisfaction with the EU budget has traditionally inspired numerous debates, academic papers and reform proposals. The criticism regarding the expenditure and revenue side of the EU budget is probably as old as the budget itself. Moreover the highly politicised and conflictive negotiation procedure of the MFF is increasingly criticised. This is from one point of view astonishing because the European Union budget is an extremely small part of EU GDP. Nevertheless, historically the EU budget has played an important role in the EU integration process and has been used to compensate potential losers in the European integration process or for buying approvals for specific projects. These "compensations" were locked into the EU budgetary structure and institutionalised in the acquis (Cipriani 2010). Moreover the budget became increasingly dependent on national contributions (as percentage of the Gross National Income - GNI) which increased the *juste retour* logic and limited a policy-driven debate on the budget. (Sapir et al. 2003) Furthermore the conflictive character of budgetary negotiation is to a certain extent natural since it results from a multitude of decisions on the use of scarce public resources (Heinemann et al. 2010).

All reform attempts, so far, have been disappointing and, as has been confirmed frequently, the EU budget is path dependent and resistant to reform. It is mainly because of the unanimity rule, that several member states could easily defend their acquired rights, such as the British rebate. Furthermore because of the net return mentality many of the benefits gained from EU policies contributing to far-reaching Union's objectives have been largely ignored.

However taking into account the long term development of the EU budget we can see a continuous but slow evolution with incremental modifications. Analysing the Delors I package and the MFF 2014-2020 there are important developments to acknowledge with regard to the financing and spending structure.

In order to contextualise the ongoing revision, in this text, first, we will analyse the main arguments and criticisms which have been put forward with regard to the revenue, expenditure and negotiation procedure of the MFF. Moreover some proposals regarding the current reform process will be presented and analysed.

In the following text we will concentrate on the EU budget and neither reflect on the recent investment plan presented by the President of the Commission nor comment on the discussion on a separate, additional budget for the Eurozone.

2. Where do we stand in the current reform process?

After two and a half years of intense and complicated negotiations, the European Parliament, the Council and the Commission reached an agreement on the much expected MFF 2014-2020 in December 2013. Although the official start of the negotiation was the presentation of the proposals for the MFF 2014-2020 by the EC in June 2011, the negotiation had already started in 2005 when the European Council, after having reached an agreement on the MFF 2007-2013, invited the Commission to 'undertake a full, wide-ranging review covering all aspects of the MFF.[III] In 2008 the Commission launched the review with a broad public debate and delivered the conclusions of this process in 2010. Despite the new input coming mainly from academic experts, NGOs and the European Parliament, the consultation phase demonstrated all too clearly that the EU organs and the member-states interpreted the review as an early starting point for the MFF 2014–2020 talks, and tactical considerations automatically permeated the contributions (Becker 2012). Nevertheless several new ideas came up aimed at a refocusing of EU spending priorities and the financing of the EU budget. Some of these ideas (such as the financial transaction tax) were later incorporated by the European Commission in its proposals for the MFF 2014-2020. One of the Commission's main arguments was that the reform of the revenue system would relieve the current burden on national Treasuries to finance the EU budget, create synergies between these budgets in order to implement common EU strategies, and give greater impact to European policies[IV]. In the end the Commission's attempt to reform the EU revenue system for the MFF 2014-2020 was not successful, and the question of the financing of the EU budget was never addressed seriously by the Council.

Coming back to the current revision, the agreement to undertake this new revision was mainly reached due to demands of the EP which made it as a condition for approving the MFF 2014-2020. In this sense a High Level Group on Own Resources (HLGOR) was set up, which will undertake a general review of the own resources system guided by the overall objectives of simplicity, transparency, equity and democratic accountability. Progress of the work will be assessed at the political level by regular meetings, at least once every six months.

The working group started their deliberation in May under the chairmanship of Mario Monti with the objective of undertaking a general review of the own resources system. In

December 2014 the high-level group presented a first assessment report (HLGOR 2014). This report is only a first step to delivering final recommendations by 2016 when the Commission will assess whether new legislative initiatives to amend the own resources system are appropriate. According to the road map, in 2016 national parliaments will discuss the proposals at an inter-parliamentary conference. On the basis of the results of this process, the Commission will assess if new Own Resource initiatives are appropriate. This assessment will be done in parallel with the review of the MFF Regulation with a view to possible reforms to be considered for the period covered by the next MFF.[V] There is no public consultation expected.

3. A short review of general arguments related to the EU budget reform coming from different theoretical approaches

The debate on the reform of the EU budget is not solely based on economic aspects, but also on efficiency arguments and concerns on the transparency of the budget and the budgetary procedure, as well as focusing on questions related to democratic accountability for budgetary decisions. In general terms there is a common understanding among academic experts and practitioners that the financing and the spending structure of the EU budget is far from ideal and should be improved in order to move towards a more efficient system. In this sense, the academic literature agrees that current rules for expenditure and revenue make the system slow to react to unforeseen events while too many complexities hinder its efficiency and transparency.

Besides this consensus there are different expectations on the right size, expenditure priorities and optimal revenue structure. Moreover the underlining principles of the budget, like the question on “What is the maximum accepted level of financial solidarity?” are highly disputed.

Several studies apply arguments based on the theory of fiscal federalism to the EU budget (Feld, Necker 2010). Fiscal federalism gives insights on how to allocate expenditure and revenue between different levels of government. Proponents of this theory underline the positive effects of investments financed by the EU budget which can offer the effective targeting of policy priorities, as well as avoiding unnecessary overlaps of national spending. In this sense the central provision of public goods promises substantive economies of scale. Spending coming from the EU level can also be more cost-efficient due to cross-border externalities, where some policies have an impact not only on the country where they are implemented but also on its neighbours. So the European dimension can maximise the efficiency of Member states' finances and help to reduce total expenditure and secure better results. If the theory of fiscal federalism is taken into account it could also be argued that every level of government, state and federal (and European), should have an independent control of financial resources sufficient to perform its exclusive functions (Wheare 1963).

However there are several critical remarks on the validity of this approach for the EU budget. In order to have areas in which EU public spending could be more efficient than national spending the EU budget has to be increased. Moreover the EU is a union between sovereign countries where the national governments are more powerful than the EU level (Ackrill 2003). Related to this, and considering insights from a broader approach of public economics, there are questions on whether there really is a need for EU budgetary intervention. This argument is also in line with the principles of subsidiarity and proportionality, according to which the EU should only perform those tasks which cannot be performed effectively at a more immediate or local level and only act to the extent that is needed to achieve its objectives. Consequently, the budget should only be used to finance EU public goods when member states and regions cannot finance these public goods. The theory of public economics supports these arguments, thus providing a framework for thinking about whether or not public administrations should participate in markets.

Above all, there is a strong regulatory capacity of the EU. Regulation at the EU level offers clear economies of scale and cross-border externalities. Although since the late 1980s the potential supporting role of the budget for the internal market have been voiced (Padoa-Schioppa, 1987), and the amount for Cohesion policy has been growing, the results are not convincing; cohesion countries are more affected by the recent crisis than countries which have not received specific funds to increase their competitiveness (Mayhew, 2012). Finally, similar to federal countries there are aspects of cost-effectiveness, especially with regard to the revenue side of the budget e.g. what would be the administrative costs of a European tax?

Moreover, as already mentioned, the debate on the EU budget does not only depend on efficiency considerations but also on whether an increasing budget and/or fiscal competences is seen as legitimate since it would reduce national sovereignty (Figueira, 2008). In line with this argument, although different areas of EU spending/revenue may be efficient at the EU level, their transfer could create problems in terms of legitimacy.

With regard to the legitimacy argument, public opinion and accountability of the policymaking process are crucial. According to Eurobarometer[VI], European citizens have very positive preferences towards an increasing role of the EU budget in social welfare and employment (42%), economic growth (40%), education and training (39%) or public health (36%) –expectations which are not in line with the current spending structure. Consequently, when asked for their position on the current EU budget, a majority of Europeans agree that 'the political objectives of the EU do not justify an increase in the Union's budget'.

There is a further argument which supports budgetary reform and which is related to the commitments and obligations of the EU. The Lisbon Treaty increased the role of the Cohesion Policy and introduced a third dimension: territorial cohesion (Article 158 TFUE). The Treaty also contains a broad catalogue of objectives for the CAP related to employment, rural development and competitiveness (Article 39 TFUE). Besides the increasing financial commitment of the Lisbon Treaty, there are also more specific policy goals. The Lisbon Agenda 2000 had already added a new dimension to the MFF 2007-2013, underlining that the EU budget should provide adequate financing for initiatives in support of and in synergy to the goals of the Agenda. Although the MFF 2014-2020 is not the financial translation of Europe 2020, there is a very close linkage established between this Strategy and all the spending headings of the MFF 2014-2020. Considering the commitments and obligations of the EU, it is quite clear that the structure of the EU budget is not in line with the Treaty objectives and political assignment of policy objectives.

4. What is at stake? – Concrete reform options

Taking into account that net balances are important for member states negotiation strategies - meaning the relationship between gross payments into the EU budget via the EU's own resources mechanism and the returns from EU spending programmes - the margin for fundamental reforms are small and modifications of the revenue side should be combined with changes on the expenditure side.

During the past two negotiations of the MFF the net contributors have been very quick to demand an overall limit of the MFF. For the sake of visibility it was fixed by 1 percent of EU GNP (this amount referred to commitments or payments according to the negotiation strategy of each net contributor). As it stands the current volume of the MFF comprises about 1 percent of EU GNP, but the annual budgets usually lie below that. In real terms, 1 % of aggregate EU GNP can be very large when expressed as a percentage of many individual Member State's GNP, and for the great majority of Member states, this means that a relatively moderate proportion of the EU budget could play a sizeable stabilising role (Begg 2012). However, as already suggested by the 1977 MacDougall report, a budget of 2% EU GNP would have an effect in reducing the inequalities of living standards, and an increase to 5-7% of GNP would be necessary in order to give the budget a stabilisation role[VII] (Majocchi 2011). In this sense the EU budget, critics say, has marginal growth effects and lacks of resources to respond to short-term challenges (e.g. only an European wide Basic unemployment insurance would require 1% of the EU GDP)[VIII], while others underline the important contribution of the EU funds to the growth rate of national GNPs (e.g. in 2009 more than half of the 1.8% economic growth in Poland was achieved thanks to EU funds).

4.1. The revenue side

The revenue side has also attracted widespread criticism and there have been several reform attempts. The debate about the EU revenue system is an issue dating back to the EEC Rome Treaty of 1957, which should have opened the process of replacing member states' national contributions by 'Community's own resources'. The transition from member states' contributions towards own resources had been ensured in April 1970. But the Treaty commitment, that the budget shall be financed completely from own resources, has never been put in praxis. It was only during the past decade, in 2004 and 2011, that the Commission tabled substantial reform proposals aiming to address identified deficiencies such as the proliferation of rebates and correction mechanisms, in addition to the high dependence on the GNI - based resource. So far, all attempts, in particular the introduction of direct EU fiscal revenues, have failed[IX] (Cipriani 2014).

However the system has not been static and there have been some important reforms, especially in the proportions of revenues which have altered considerably. In 1988, when the GNI-based resource was first introduced, the proportions were: VAT-based resource, 61 per cent; TOR, 29 per cent; and GNI-based resource, 10 per cent. Over the past two decades, Member states have thus seen a significant rise in GNI-based contributions (75% in 2011). Today[X] more than 85% of EU financing is based on statistical aggregates derived from GNI and VAT, the European Union still has no right of its own to raise taxes, and is forbidden to borrow.

There are strengths and weaknesses of the current system. On the one side the current EU revenue system allows a stable flow of resources for seven year periods, so budgetary stability and security of planning are guaranteed. The Commission's Own Resources Report of 2011 explained that the GNI-based resource had a positive impact in terms of stability and sufficiency of resources flows. The current system, has, from the administrative point of view, at least until 2014, been working with reasonable cost effectiveness. However, on the other side, the present system encourages the member states to negotiate the allocation of spending in the EU budget as a counterpart to "their" payments into the common budget, and to endless debates on budgetary issues between net payers and net contributors about the costs of the EU budget. The need to respect the requirements of the Stability and Growth Pact has led to increasing pressure on the national contributions to the EU budget. In this sense the high level of GNI-based contributions constitutes an important incentive and easy mechanism for net contributors to cap the budget. The perceived burden leads to the complex concepts of correction mechanisms and as a consequence the system has become highly opaque. Doubtlessly, these existing correction mechanisms are one major criticism of the current EU system of own resources. The most important distortion is, of course, the UK rebate. Furthermore, since decisions on the own resource system require unanimity by the Council, the revenue side can only respond slowly to changing circumstances (e.g. the impact of the economic crisis in specific member states).

Based on the existing mixed approach, two categories of revenue models could be envisaged. A first option would be to concentrate the financing of the EU through member states' contributions based, for example, on the GNI resource without a specific European tax or tax sharing. The GNI resource has been considered a flexible and cost-efficient revenue type with reasonable statistical reliability, and moreover it is a transparent indicator for national contribution capacity. While the ability-to-pay principle stresses the relative size or prosperity of member states as the variable to determine the revenue burden, under the equivalence principle, a country contributes in proportion to its benefits from membership.

Reducing the number of revenue sources would make the system simpler and transparent since revenues would be directly linked to the national budgets and national parliaments could control them. In order to reduce the conflictive debates on budgetary imbalances, a generalised mechanism could limit national contributions.

A further possibility would be to finance the EU budget by an explicit fiscal source. According to several studies, there are at least six potential sources and their variants (financial sector taxation; revenue from auctioning under the EU Emissions Trading System; taxation of the aviation sector; an EU VAT; an EU energy tax or an EU corporate income tax). Additionally, the EC proposed European Project Bonds, an EIB scheme for raising funds, in order to stimulate investment in key strategic EU infrastructure (Haug, Lamassoure and Verhofstadt 2011).

Again the argument is that the system would become simpler and visible on top of being more predictable in its impact. A financing system based on "real" own resources would increase the financial autonomy of the EU and introduce a direct link to citizens. Accordingly, the establishment of own resources could provide the justification for giving the European Parliament budgetary powers. According to Iozzo et al. (2008) there are some principles which a new tax should respond to:

(a) most revenues should come from only one "general" tax;

(b) EU taxes should have a broad base and be levied at a low rate, to minimise allocative distortions (neutrality);

(c) The tax should be simply and uniformly assessed (simplicity);

(d) The tax should be automatically transferred to the EU without going through national budgets (independence);

(e) Citizens should be made aware of what they pay to the EU budget (transparency);

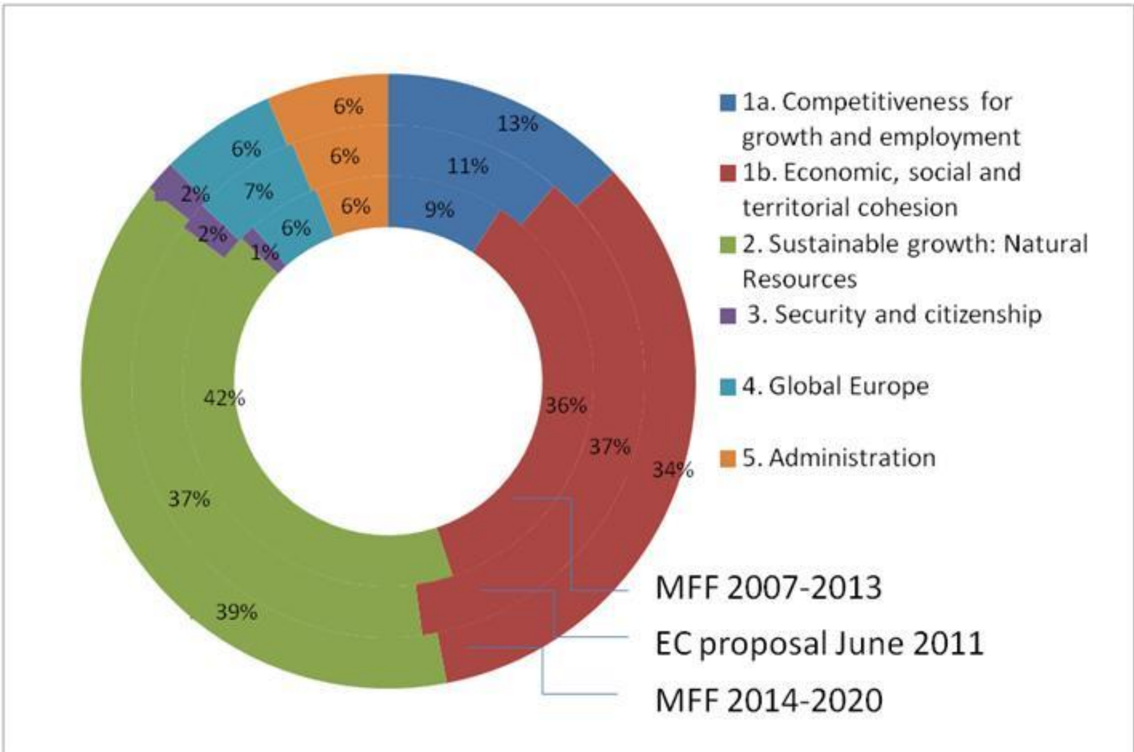
However, raising one or more resources could become more costly in administrative terms and discriminate against some countries. For example, the VAT resource tends to discriminate against poorer countries or countries with a high share of tourism where the VAT base is relatively large due to a higher consumption ratio. Moreover the claim that an EU tax would end the *juste retour* thinking does not hold up to closer scrutiny. According to Heinemann et al., the perception of unfair burden sharing hinges crucially on the shares of expenditures, so that a tax based system would not solve the problem (Heinemann et al. 2010).

4.2. Expenditure

Since the debate on UK membership at the beginning of the seventies there are increasing debates on how and where the EU budget is spent. While net payers demand "European added value" for EU spending in order to justify the restriction of the budget volume, the net beneficiaries appealed to "European solidarity" to defend and increase spending programmes. The introduction of the MFF in 1988 helped to ensure predictability of EU expenditure and budgetary stability. This predictability has come at the price of limited flexibility. The obstacles to re-prioritisation have made it harder to give priority to new issues such as crisis situations or urgent international responsibilities. The budget's inability to "expect the unexpected" brings both an operational and a reputational cost to the EU.[XI]

However, the European Commission and increasingly the EP have taken advantage of openings in the political opportunity structures to capitalise on new opportunities in budgetary negotiations. While process management and control mechanisms have been progressively defined by the EC, the content of the MFF remained based on the Treaty objectives and political agreements among Member states (Laffan 2000: 729). Nevertheless, the spending structure of the EU budget has also evolved in accordance with the EU integration process, as well as to specific challenges. In this sense, the first MFF was agreed for the period 1988-92 (Delors I package) in order to provide the resources needed for the budgetary implementation of the Single European Act. The MFF 1993-99 (Delors II package) contained a significant increase of structural and cohesion funds as a basis for the preparation of Member states for the single currency. In 1999 the MFF for the period 2000-06 (Agenda 2000) secured the necessary resources to finance the enlargement process. Finally, as already mentioned, the MFF 2007-2013 established a new link between spending programmes and sustainable growth and competitiveness. Although the Sapir report in 2003 famously dubbed the EU Budget as a historical relic, underlining that there is too much focus on agriculture (Sapir et al. 2003), there have been some important steps forward. With regard to the current MFF, there are significant changes in the headings compared to the 2007-2013 period. This is notably the case for: 'Competitiveness for growth and jobs' (+37%); 'Economic, social and territorial cohesion' (-8%); 'Sustainable Growth: Natural Resources' (-11%) and 'Security and citizenship' (+27%). These changes confirm a certain shift from treaty based objectives to a more policy oriented budget. In this sense a strong emphasis is put on expenditure aimed at boosting growth and creating jobs.

Graph 1: Comparing of the spending structure between the MFF 2007-2013, the Commission proposal and the MFF 2014-2020.



Source: Own elaboration

There are also some further innovations which can be summarised in the following way:

- The creation of a specific fund for employment.

- The new macroeconomic conditionality aims to link the allocation of structural funds to good economic governance.
- The priority given to the Europe 2020 Strategy in all spending headings.
- The mid-term adjustment of the national allocations.[XII]
- A new contingency margin aimed at allowing flexibility within the MFF 2014-2020 to cope with unforeseen circumstances.
- As regards to the CAP, - greater flexibility in the use of the rural development funds.
- New instrument of "connecting Europe Facility", which will be finance infrastructures in the field of transport, telecommunications and energy.
- The revision clause, for a mid-term review on all spending headings and the financing of the EU budget
- Flexibilisation of the Multiannual Financial Framework.

Nevertheless, most spending is still within two headings which leave fewer resources for other spending headings. The long-standing demand for a reform of the Common Agricultural Policy, e.g. through a reduction in the spending and/or national co-financing, could have two important consequences: on the one hand an increase in pressure for the elimination of the British rebate, as well as, on the other hand, an increase in the resources available for headings which could deliver European public goods.

4.3. The negotiation process

After its introduction in 1988, the system of MFF had helped to overcome institutional power struggles that had characterised budgetary negotiations in the 1980s. Since the negotiations for Delors-I, which ended after one year, negotiations have become more complicated. The negotiation of the MFF 2014-2020 took nearly two and half years. Despite this extension of negotiations, negotiation outcomes *per se* have become even less impressive. However, circumstances have become more complicated, not only because of an increasing number of member states but also because of the increasing heterogenic economic development within the EU. The increasing number of veto players has also led to the effect that member states prefer to agree on the lowest common denominator rather than starting ambitious initiatives to modernise the budget which would involve a certain risk of the negotiations failing. Moreover, as already mentioned, any time a new financial framework is negotiated, member states end up struggling to get a 'net return' or specific side-payment. As a result, the question of how and where the EU budget can best add value to European integration hardly ever comes up in budget negotiations. The "juste retour" debate therefore has had a negative impact on the quality of delivery and has reduced EU added value.

The negotiation process is, after twenty-five-years, well-oiled, in which most conflicts are predictable and roles are largely known and accepted (Becker 2012). Although the Treaty of Lisbon has increased the role of the EP in the annual budgetary process, the formal power of the Parliament remains very limited.

Some options seem to exist for reforming the MFF negotiation process. Firstly there are proposals to align the next MFF with the political cycles of the Commission and EP. This would offer the opportunity to "politicise" the discussion on the MFF and present differences before the electorate on the occasion of European elections, with the caveat that, in order to ensure full democratic legitimacy, Parliament and Commission should have a mandate to negotiate the MFF, which would be applied during their mandates. Secondly there are demands that the final decision on the MFF should be taken by a qualified majority. A shift towards a qualified majority voting for the MFF regulation would be in line not only with the ordinary legislative procedure, used for the adoption of virtually all EU multiannual programmes, but also with the annual procedure for adopting the EU budget.

And thirdly some consider that the EP should have a similar input in the MFF decision than in the annual budgetary process. In this sense it has been put forward that the MFF should be prepared in co-decision of the Council with the EP (Padoa-Schioppa 2013). Moreover in order to make the procedure more flexible the modification of shares of taxes (e.g. VAT) or certain budget shares could also take place using the same procedure.

5. What are the positions of the main actors?

The European Commission proposed several reforms of the own resources system, as well as possible financing means that could gradually replace national contributions. The latest proposals, during the budget review and alongside its proposal of the MFF 2014-2020, can be summarised as follows:

- the abolition of the current VAT-based own resource,
- the introduction of lump-sum reductions in the GNI-based resource payments,
- and a European wide financial transaction tax.

In this sense, the European Commission is determined to bring the revision process to a positive end. Commenting at the first meeting of the High-Level Group in early April 2014, the former EU Budget Commissioner Janusz Lewandowski stated that the current system is too opaque and too complex. However, unanimous agreement on the need to improve the current system is one thing, finding a fairer, more transparent and more modern system likely to be agreed by all is another thing. And, this unanimity notwithstanding, the Commission has little reason to feel rushed; the agreed resources are secured from the outset and are paid out without major problems until 2020. However the debate has been reactivated after the appointment of the new EU Commission. During the negotiation of the MFF 2014-2020 the pan-European infrastructure project, which was supposed to be financed by European Project Bonds was not supported by the governments of member states. Nevertheless because of the success of the pilot phase of the "project bonds", the mechanism attracted new attention. Finally project bonds and similar guarantee mechanisms will be used to leverage the foreseen €315 billion of Juncker's Investment plan.

The reform of the financing of the EU budget was never addressed seriously by the Council during the negotiation of the MFF 2014-2020. Member states are traditionally reluctant to accept any form of direct fiscal taxation and financial autonomy for the EU. Although the financial autonomy of the EU could reduce the burden of national budgets there are only few member states which are openly in favour of the European Tax. The Council's main interest is not to lose Member states veto power over EU financing arrangements. Since the introduction of a FTT at EU-wide level was opposed by Member States, this revenue source has been only implemented, in the context of an enhanced cooperation, by several Member States.

The European Parliament is the principal promoter of the review of the EU revenue system and has a real interest in moving forward. Although the main argument has been to reform the budget in order to make it more transparent, it is also clear that the Parliament is aiming to increase its power within the budgetary process. In its report on the lessons to be learned from the negotiations on the MFF 2014-2020, the Parliament favours the introduction of "new and real own resources". In this sense the EP is hoping that direct revenue for the EU – for example from a tax on financial transactions – would ease some of the political considerations that impose pressures on the budget. In this sense the position of the Parliament is clear: "existing system of own resources, (…) is non-transparent, unfair, not subject to parliamentary control, highly complex and totally incomprehensible to European citizens" [XIII]. Also a recent report by Jean-Luc Dehaene and Anne E. Jensen on the EU's own resource system points out that the EP has always demanded that the EU's budget be "fully financed" from own resources.

These demands are not new; the Parliament has a long record of proposals for a reform of the own resource system. However after assuming its new role in the negotiation process, and after expanding its powers, the Parliament is now flexing its muscles with much more self-confidence.

6. Conclusions

Dissatisfaction with the EU budget has grown steadily over the past three decades, but there is also a growing recognition that the current EU budget is not well suited to current needs and future prospects of European integration and that the European budget and finance system needs to be reformed.

The current revision provides an important occasion and stimulus to reform the financing of the budget and to readjust the spending structure. Nevertheless the ongoing reform will not lead to a radically different budget, regarding its revenues and spending programmes as well as decision-making procedure, but contribute to establishing an effective instrument to foster EU policy goals. With regard to spending, the budget will continue the path of inconspicuous gradual and sustainable reforms within existing European spending priorities.

Today, there are still important divergent visions on what the EU budget stands for, and what it should achieve. In this sense there should be a debate on the principles of the budget at the beginning of the reform process, a debate which could narrow the positions on the long term and short term results to be achieved with the EU's funding programmes, e.g. should the EU budget be a tool to simulate growth and jobs or concentrate on treaty objectives? Having discussed the long term and short term objectives, the financial needs should be agreed, again starting with a debate on the principles of the budget revenue, e.g. solidarity or fair distribution of financial burden, equivalence principle or the ability-to-pay principle.

With regard to the procedure, it has to be asked whether we should continue working with the MFF procedures, and if yes how could these be reformed in order to reduce the growing number of conflicts, as well as to make the decision making process more effective in order to avoid deadlocks and save valuable time and resources in the course of negotiations.

Without any doubt, reform should be related to a revision of the treaties; nevertheless in a first step, common praxis should be formalised in an agreement at the political level. Several procedures could eventually be enshrined in the Inter Institutional Agreement itself.

To sum up, and taking into account the different theoretical and empirical insights of the literature, there are four main requirements the EU budgetary system should fulfil. The system is geared to fostering the efficient and sustainable provision of European public goods, consolidate budgetary discipline, it has to be designed to be conducive to the integration process and should enable the EU to fulfil its normative and policy objectives.

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[I] Article 2, Mid-term review/revision of the MFF, Council Regulation, No 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014-2020.

[II] See Council of the EU, Financial Perspectives 2007-2013, 15915/05, 19.12.05.

[III] Ebda.

[IV] According to the Commission's estimates, an FTT applied at EU level could have provided to the EU budget by 2020 an amount of €37 billion a year.

[V] See Joint Declaration by Parliament, Council and Commission on improving effectiveness of public spending in matters subject to EU's action, Council document 15997/13, ADD 1, Brussels, 25.11.2013.

[VI] Standard Eurobarometer 75, Spring 2011, Europeans and the European Union budget.

[VII] See Report of the Study Group on the Role of Public Finance in European Integration, April 1977.

[VIII] See proposal by László Andor former European Commissioner for Employment, Social Affairs and Inclusion on "Basic European unemployment insurance: Countering divergences within the Economic and Monetary Union".

[IX] See COM(2004), "The financing of the European Union - Report on the operation of the own resources system", 14 July 2004.

[X] Under the present system, there are three types of own resources:
Traditional own resources: consist mainly of customs duties on imports from outside the EU and sugar

levies. EU Member States keep 20 % of the amounts as collection costs.
Own resources based on value added tax (VAT): a uniform rate of 0.3 % is levied on the harmonized VAT base of each Member states.
Own resources based on GNI: each Member State transfers a percentage of its GNI to the EU. Although designed simply to cover the balance of total expenditure not covered by the other own resources, this has become the largest source of revenue of the EU budget.
Other sources of revenue include tax and other deductions from EU staff remunerations, bank interest, contributions from non-EU countries to certain programmes, interest on late payments and fines.
[XI] See COM(2010) 700 final, The EU Budget Review, Strasbourg, 19.10.2010
[XII] It will adjust these total allocations whenever there is a cumulative divergence of more than +/-5%. The total net effect of the adjustments may not exceed EUR 4.000 million.
[XIII] See European Parliament (2014), Report on the draft Council decision on the system of own resources of the European Union, C7-0036/2014.

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