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Iain Begg, Henrik Enderlein, Jacques Le Cacheux, Mojmir Mrak

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FINANCING OF THE EUROPEAN UNION BUDGET

Study for EUROPEAN COMMISSION, DIRECTORATE GENERAL FOR BUDGET

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Final Report

Iain Begg (London School of Economics and Political Science)

Henrik Enderlein (Hertie School of Governance)

Jacques Le Cacheux (L' Observatoire Français des Conjonctures Economique)

Mojmir Mrak (Faculty of Economics, University of Ljubljana)

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Final report

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Executive summary

A review of both the expenditure and revenue sides of the EU budget – with no taboos – was agreed as part of the 2005 settlement of the EU budget for the period 2007-13. This study is intended to inform debate on the revenue side. It investigates two main questions: how well does the current system for raising revenue for the EU budget function; and how could it be improved.

The revenue side of the EU budget comprises several elements, all of which need to be assessed to arrive at convincing answers to these questions. They include the revenue instruments used - the ‘own resources’ (OR) - and how they are set, the means by which net contributions deemed to be excessive are adjusted, and how to ensure that the EU’s revenue balances its expenditure as required by Art. 268 TEC.

These different elements are necessarily part of any package of measures agreed for the revenue side of the budget and have been handled in different ways since the early 1970s when the EU first acquired own resources. It follows that, both in assessing the current system and looking forward, the settlement as a whole has to be appraised and that it is not sufficient to look in isolation at proposals for new own resources or re-casting of correction mechanisms.

Art. 269 of TEC states that ‘the budget shall be financed wholly from own resources’. In the present system, revenue flows from four ORs: two are what are known as the traditional own resources (TOR) - agricultural levies and customs duties - a resource based on a harmonised national pre-emption on the proceeds of value added tax VAT levied in Member States, and a transfer based on the level of Member State Gross National Income (GNI). The fourth of these resources has the property that it is residual, being set at the level needed to ensure that the budget balances. Consequently, the EU budget is always assured of sufficient revenue, an important property and one that forestalls some of the acrimonious disputes that preceded its introduction.

Over the years, the GNI resource has become the principal revenue stream for the EU, progressively eclipsing the VAT resource and the TOR. However, although the GNI resource is legally an OR as required by the Treaty, in economic terms it is more an inter-governmental transfer than a revenue instrument that ‘belongs’ to the EU level of governance. As such, it has been subject to criticism, notably from the European Parliament. By contrast, Member States are mostly supportive of the GNI resource which is easily integrated into national public finances, straightforward to administer and generally seen as fair.

However, the relative growth in GNI-based financing has been associated with increasing resort to correction mechanisms which have grown in volume. For many Member States, the fairness of the GNI-based resource is undermined by the extent of corrections and it is important to look at both together in assessing the financing system].

Correction mechanisms have proliferated since being established in the 1984 Fontainebleau European Council which gave rise to the UK abatement. It is generally accepted that the uneven distribution of expenditure among the Member States (especially on the CAP) is at the root of the political demands for corrections, notably where the amounts spent vary between countries of similar levels of prosperity, although imbalances in gross payments into the budget have also played a part for some.

While the reasoning behind corrections is to reduce net contributions, the mechanisms involved vary, with the UK abatement directly tied to the net contribution and susceptible to change if the UK position evolves, whereas the temporary reductions in the call-up of VAT or GNI resources now employed for four other Member States are fixed corrections that will not adjust to changed circumstances.

By successfully achieving the aim of raising the funding needed for EU spending, the current system fulfils an objective highly valued by both the Member States and the budgetary authorities. The system could be simplified by consolidating the VAT resource – which no longer directly reflects actual VAT receipts in a Member State and has, in any case shrunk in importance – into the GNI resource, such that the budget is funded only by the TOR and the GNI resource.

Because of the residual nature of the GNI resource, in combination with the own resources ceiling and the multi-annual framework, it would be difficult to devise a system that achieved sufficiency and stability

aims more effectively while assuring a balanced budget. However, it would also be possible to develop an alternative residual resources that achieved much the same outcome.

Nevertheless, to justify any change to the system, it would be necessary to show that considerations other than revenue sufficiency should be given greater weight. There are several such considerations, ranging from contributions to the public finance literature which point to the virtues of having revenue raising at the same level of government, and more political issues such as enhancing the accountability and transparency of EU spending. Connecting revenue raising to EU policies, such as combating climate change or improving the functioning of the single market or EMU, is also relevant. If, in reforming the revenue side of the budget, more weight is given to these other, not strictly budgetary factors, a case can be made for a system in which new revenue instruments (whether tax or other) are assigned directly to the EU level and in which different approaches to corrections and other facets of revenue are adopted. However, the study argues that there should be a three step approach to deciding on such reforms:

- First, strategic decisions should be taken about the broad contours of the revenue system, including what the respective proportions from national contributions and true community resources should be, whether to have correction mechanisms to compensate for imbalances between Member States in the incidence of expenditure, and whether there should be explicit equalisation on the revenue side.
- Second, normative criteria on what is sought from either resources or correction/equalisation mechanisms have to be made explicit. This should be the first-order decision in determining choices and calls for a wide-ranging debate about what weights to assign to different criteria.
- Third, and as second-order issue, the weighted criteria should be used to select the resources and mechanisms that correspond most closely to the preferences established in step 2.

It is important to stress that this approach means that there cannot be an ideal solution. However, the following examples can serve as illustrations:

- Various forms of carbon tax (including using the proceeds of the auction of emissions trading permits) would be easy to link to climate change policies.
- Despite the complications of changing the Treaty it would entail, using the monetary income of the European Central Bank could be justified by the fact that EMU is one of the core EU policy competences, as could revenue from the auction of emissions trading permits.
- A genuine rather than adjusted VAT could be a means of raising the visibility of EU financing if invoices showed a separate EU element, but so too could the imposition of a levy on flights departing from EU airports, while also chiming with climate change policies.

A critical dimension is that any potential or existing resource performs well regarding some criteria and less well according to others. The core of the analysis undertaken here is to highlight these arguments in order to facilitate the indispensable political judgement that would precede any reform of the EU financing.

Reform also has to take into account the starting point – the existing system – to ensure a transition to a more effective financing system, taking all the constituent parts together. Indeed, the quality of EU financing will ultimately depend on the interplay of its constitutive elements, and its impact in solving issues such as the *juste retour* debate.

The study has constructed five different scenarios to capture these approaches, taking into account the timescale over which it is plausible to introduce them and the ambition they embody. A first time for change is 2013, coinciding with the end of the current multi-annual financial framework (MFF), and a second for the end of the subsequent MFF, which would be 2020 if a seven year cycle is retained, but could be earlier if the span is shortened, as allowed by the Lisbon treaty.

In the content of the scenarios, ‘minimum reform’ is used to denote only marginal change from the status quo, while ‘community own resources’ describes more extensive change towards funding from new resources, and in both pairs it is assumed that more can be altered for 2020 than for 2013. In these first four scenarios, the inter-governmental character of the EU as a fiscal system is assumed to be retained, and for this reason, all four retain some element of a GNI resource; moreover, most, if not all proposed

changes in the revenue structure of the budget could be implemented without treaty changes.. By contrast, the fifth scenario - 'taxation with representation' - is predicated on a future (undated) reconfiguration of the EU towards the multi-level fiscal models found in mature federations and, notably, excludes an inter-governmental component to EU revenue.

Political sensitivities and path dependency are important influences on how the revenue side of the budget can be reformed, and it is evident that reform on the revenue side cannot proceed without reference to the expenditure side. Accordingly, this study recommends a phased approach, though one with ultimately ambitious goals. With suitably long transition periods, the aim should be to:

- Simplify the national contributions by discontinuing the current VAT resource and consolidating it into the GNI resource.
- Fund up to 50% of the EU budget from new resources that reflect EU policies, with a preference for drawing on a revenue base that can also contribute to EU environmental goals. This points to a charge on flights (for a relatively low revenue requirement), or assigning the proceeds from the auction of Emissions Trading Permits or some other variant on a carbon tax) if a decision is taken to raise more money from a new resource.
- Longer-term and provided that the difficult problems of defining a common tax base can be solved, shift to a corporate income tax (CIT) should be envisaged.
- If a CIT proves to be politically impossible, and despite the fact that it is likely to need a Treaty change, consider the alternative of using central bank monetary income as an own resource.
- Initiate a strategy to dispense with correction mechanisms and to move, instead, towards a formula for equalisation on the revenue side. This will have to proceed by stages and is a recommendation contingent on what happens on the expenditure side.
 - The underlying principles should be to have a general mechanism, to make it as objective as possible and thus to avoid ad hoc arrangements, and for 'ability to pay' to be central to the definition of gross contributions.
 - There are various credible formulae that could be adopted, but at this stage it is the political will, rather than the precise mechanism that is at issue.
- Launch an informed and extensive public debate on the balance within the EU budget between investment in public goods and mechanisms – including on the revenue side of the budget - which play a distributive role.

Non-technical summary

One of the conclusions of the December 2005 European Council that settled the EU budget for the period 2007-13 was an agreement to undertake a review in 2008/9. The review is intended to be wide ranging and to have no taboos, and is to address both the expenditure and revenue sides of the budget. A subsequent consultation paper published in 2007 by the European Commission sets out a series of questions and areas for discussion. Specifically on the revenue side, the consultation paper poses two main questions about the future financing of the EU budget:

What principles should underpin the revenue side of the budget and how should these be translated in the own resources system?

Is there any justification for maintaining correction or compensatory mechanisms?

A third, more political question concerning the revenue side is also posed, partly reflecting the concerns that have been articulated by, notably, the European Parliament about the legitimacy and visibility of the current financing system:

What should be the relationship between citizens, policy priorities, and the financing of the EU budget?

Purpose of the study and background

This study is concerned with the future financing of the EU budget, including possible budgetary correction mechanisms, and is intended to feed into the budget review. The revenue side of the EU budget comprises several elements, all of which need to be assessed in appraising the functioning of the current system and whether it should be reformed. They include the revenue instruments used - the 'own resources' (OR) - and how they are set, the means by which net contributions deemed to be excessive are adjusted, and how to ensure that the EU's revenue balances its expenditure as required by Art. 268 TEC. Such balanced budget rules are often applied to control the expenditure of sub-national governments in multi-level fiscal systems

Work done in the course of this study has included an extensive literature survey and examination of relevant previous work, empirical research and policy analysis. The empirical work comprised a mix of qualitative and quantitative analysis, extensive dialogue with practitioners, and a survey directed to officials (mainly, but by no means exclusively, in finance ministries) in Member States. This research has been used to investigate both how well the current system is working and to try to provide a systematic basis for analysing options for reform.

Funding: the present system

Revenue to finance the EU budget is raised from four sources: what are known as the two traditional own resources (TOR - agricultural levies and customs duties); a resource based on a harmonised national pre-emption on the proceeds of value added tax VAT levied in Member States; and a transfer based on the level of Member State GNI. Over the years, the GNI resource has become the principal revenue stream for the EU, progressively eclipsing the VAT resource and the TOR. However, although the GNI resource is legally an OR as required by the Treaty, in economic terms it is more an inter-governmental transfer than a revenue instrument that 'belongs' to the EU level of governance. As such, it has been subject to criticism, notably from the European Parliament. By contrast, Member States are mostly supportive of the GNI resource which is easily integrated into national public finances, straightforward to administer and generally seen as fair. The calls on the GNI resource vary according to how much revenue the EU needs to finance its expenditure, and this residual character of the resource means that it provides a means of ensuring that the annual budget is balanced.

Various revenue-side 'correction' measures are used to abate the net contributions of selected Member States. These comprise, first, the UK abatement, agreed in 1984 and continued with some revisions ever since; the reduced rates of contribution to the UK abatement initially granted to Germany and subsequently to Austria, the Netherlands and Sweden; and a range of other ad hoc mechanisms that have been used to reduce the burden on these same four countries.. A further controlling element is the own resources ceiling, currently set at 1.24% of Gross National Income (GNI) for payments from the budget.

Although this ceiling stipulates the maximum level of EU spending, it is important to note that the Council has usually chosen a much lower ceiling and that actual spending has been consistently well below the ceiling: it is projected to be just over 1% of GNI over the course of the Multi-annual Financial Framework for 2007-13, but will decline to reach 0.94% of GNI by 2013.

The basis for an own resources system

The own resources system exists primarily – and self-evidently - to raise sufficient revenue to finance EU expenditure. But it also has to contribute to other goals and to fulfil certain criteria as a revenue system. Some of these are straightforward, while others are much more contentious and include:

- Achieving a politically acceptable balance in the contributions of individual Member States
- Raising revenue in an efficient manner and having regard to different facets of economic efficiency in the way in which resources are levied
- Providing the EU level with autonomy in its finances
- Contributing to the efficient pursuit of EU policy objectives
- Respecting a number of other political imperatives, such as connecting citizens to, and achieving visibility for, EU public finances
- Conforming to the Treaty

These different obligations and expectations may not be mutually consistent and mean that the revenue side of the EU budget has to strike a balance between potentially inconsistent pressures. As a result, it has to be expected that there will be differences of opinion about what constitutes an optimal system, a corollary of which is that there cannot be a single ‘ideal’ solution for funding the EU. An assessment of the functioning of the existing system and of potential reforms consequently has to bring together positive and normative elements to arrive at a convincing analysis.

Although there is an extensive academic and policy literature on tax policy, inter-governmental fiscal relations and public choice, it has been found in this study to be of only limited value in shedding light on how to fund the EU budget. The principal difficulty in this regard is that in other multi-level governance systems, the highest level of government is typically responsible for raising a sizeable proportion of the taxes and, unlike the EU, plays a substantial role in mediating between lower tiers of government in budgetary matters. This manifestly is not a description of the way the EU functions or is likely to under any plausible scenario. Equally, the EU is more than an international organisation such as the IMF or the United Nations and a finding of this study is that there is no real insight into how to fund the EU budget from examination of how these organisations obtain their income. Instead, the unique (often referred to as *sui generis*, meaning one of a kind) nature of the EU invites a distinctive approach.

Judgements on the existing system

The existing system of own resources has a number of qualities. Perhaps the most important is that it assures the sufficiency and stability of EU revenues by having (through the GNI resource) a revenue stream that adjusts flexibly to ensure that EU expenditure is funded. This property is important not only because it means that the EU has no difficulty in raising the money it needs or in exactly balancing revenue and expenditure, but also because it avoids any complications that might arise if it were reliant on resources that did not yield as much as anticipated. The flexibility of the existing system also means that it can (within the own resources ceiling) adjust readily to changes in the level of EU spending.

On the whole the survey findings and other information obtained from representatives of Member States suggests that the current system is regarded as satisfactory, although the VAT resource is seen as adding unnecessarily to the administrative burden, straightforward for Member States to administer. It is also perceived to be tolerably fair, at least in terms of *ex-ante* gross contributions.

However, there is widespread concern that the various corrections mechanisms undermine the fairness of the system. Criticisms are also made of the complexity and opacity of the funding arrangements and, above all, of the correction mechanisms, especially as they have proliferated. It is argued, further that the

current system amplifies the propensity of Member States – especially the net contributors - to focus attention on net accounting balances that, at best, tell only a partial story about what is a *juste retour* from the budget, let alone from EU membership.

A separate strand of objections to the current OR system is more overtly political. There is, first, the observation that citizens have no direct means of influencing how the EU is funded and thus are not able to express preferences, giving the impression that the Member State is the tax-payer, rather than the citizen. The European Parliament, especially, bemoans this disconnection from normal political process, and has regularly criticised the lack of visibility of EU resources. A related argument is that the increasing concentration on net accounting balances has undermined solidarity as a budgetary principle. It may also have militated against investment in EU public goods, with governments more concerned to improve their net receipts than to ensure that the money is sufficient for collective goods and is spent wisely.

The accounting net balance approach tends to view the EU budget as a zero-sum game to the extent that net cash flow gains achieved by one country are exactly offset by net cash losses by another. By contrast, a public goods approach will often be a positive-sum game, even if the burden of paying for it is uneven. There are also feedbacks to be taken into account, especially as a result of cohesion policies: a sizeable, though uncertain proportion of cash transferred to net recipients flows back to donors through the order books of construction and equipment manufacturing companies. In addition, there are macroeconomic multiplier effects from the increased demand in recipient countries which also tends to benefit contributors. Precise measurement of all of these effects is difficult, not least because it is never easy to define a convincing counter-factual to capture what would have happened in the absence of the transfers. It is also pertinent that even if demand flows back to contributor countries, it is still the recipients who ultimately gain most from the public assets that are funded by the EU budget. All in all, though, the inference to draw for the own resources system is that more subtle assessments of net gains are needed.

Reform of the system

The strength of the case for reform of the own resources system depends on the normative priorities of decision-makers on what the system is supposed to achieve. If the only consideration were to ensure that the budget were adequately and reliably funded, it would be hard to argue against the GNI resource, though changes in the precise application of the resource might be contemplated to alter burden-sharing. If, by contrast, the over-riding priority is to connect citizens to EU policies or to link revenue more closely to investment in EU public goods, the arguments for true EU resources as opposed to national contributions become much more compelling. It follows that the first issue that has to be resolved is how much weight is given to the various objectives.

On this, the view taken in this study is that the dual character of the EU – a union of Member States and of citizens – should be reflected in the funding mix, implying a substantial increase in the Community proportion from the current low share of the TOR. A reform package must, however, also deal with the other facets of the own resources system and cannot be confined to the straight substitution of a new community resource for part (or even all) of the current national contributions.

Looking first at the individual components, this study argues that the designation of resources to fund the budget should proceed through a hierarchical decision-making process. The first step is to decide on the proportions of the total revenue required that should be funded by, respectively, national contributions and by community resources. The research finds no reason to alter the current attribution of TOR to the Community budget, although the likelihood is that the downward trend in the yield of TOR will continue. For illustrative purposes, it is assumed that the proportion stabilises at around 10% of a budget remaining at around 1% of GNI. The first decision is, therefore, to what extent to seek new resources for the remaining 90%. But if reform of the expenditure side of the budget results in a significantly larger (or, indeed smaller) proportion of GNI, the parameters would have to be adjusted accordingly.

The proportion of GNI to be raised from Community resources will then have a bearing on the preferences among individual resources. If it is in the range 0-0.35% of GNI, there is a much wider array of taxes and non-tax instruments that could be pressed into service as EU resources, whereas if the requirement exceeds 1% of GNI, a new resource will have to come from one of the substantial tax bases that Member States draw on to raise revenue. These include consumers' expenditure (principally, VAT and excise

duties), personal income, corporate income or capital taxation. Two other bases deemed in the study not to be plausible options are taxation of land or of labour.

Among the major tax bases, VAT is likely to be more stable and more equitable than either personal income or corporate income taxes, where there are much greater differences in the nature of the tax systems and tax bases. In addition, personal income taxes and many excise duties (excise duty on motor fuels is arguably less contentious) are widely seen as much more politically sensitive than VAT because they are used to effect redistribution (income taxation) as well as for social policy purposes (such as curbing alcohol consumption). Given that these political factors compound the complications that would arise from differences in coverage of these taxes, they effectively rule them out as options for the EU. In principle, taxes on capital, especially a corporate income tax, are more credible, partly because in an integrated single market it becomes very difficult to determine where the tax base (corporate profits) is actually generated, as opposed to where it is declared. Indeed some countries have quite deliberately sought to attract corporate HQs precisely because they can then obtain more yield from corporate taxation.

Choosing resources

A key finding of the study is that there is neither a 'best' Community resource for funding the EU, yet no shortage of broadly satisfactory ones. For this reason, the precise choice of resource, should a switch in that direction be desired, is seen as a second-order question to be determined more by the preferences of decision-makers than on purely objective criteria. Several criteria have been identified in previous work as salient in this regard, most of them drawn from the public finance literature. They encompass issues such as equity between citizens, avoiding any distortions in the allocation of resources and a variety of administrative criteria such as collection costs, sufficiency, stability and buoyancy of revenues, simplicity or prevention of evasion. These criteria are, on the whole, applicable to *any* fiscal system, and so have been complemented in the present study by a greater insistence on more specific EU-related criteria. The latter include fairness between Member States, connections to EU policies and visibility to citizens and – perhaps more contentiously – reinforcing the autonomy of the EU's finances. In addition, subsidiarity or national sensitivity concerns can result in de facto vetoes in considering certain classes of taxes, especially where national social or political aims are associated with the resource in question.

Using these criteria, 'modulated' VAT in which one or two percentage points of the national rate in each Member State is separated out for the EU level, emerges as a strong contender among tax bases shared with other levels of government, because it is both broadly based and relatively harmonised. However, it has the considerable drawback that the harmonisation of VAT across Member States is far from complete and it is thus an open question whether there would then be strong pressures to adjust the respective yields in the interest of fairness among Member States. This, in effect is what happened with the current VAT resource after it was agreed in the 1970s, so that the risk is one of 'going back to the future' with the same drawbacks re-surfacing. For these reasons, VAT may not be as appealing a solution for a new EU resource as is widely believed.

Corporate income tax (CIT) is adjudged to be the only other viable option among major tax bases, because of the sensitivity of the other tax bases. The principal advantage of Europeanising CIT is that it would help to reduce regional arbitrariness in the taxing of corporate profits that arise because companies have some latitude in choosing where to declare profits. On the other hand, CIT is a much smaller tax base than VAT (albeit large enough to fund the EU budget in its entirety with some margin to spare), is more volatile over the economic cycle and is not yet well harmonised across Member States. It is, therefore, an option that is only likely to be credible longer term and subject to agreement of a common consolidated tax base.

Turning to lower yield resources that have been proposed, there are many with varying potential yields. For such taxes, the option favoured in the study is to define resources that can demonstrably be associated with EU policies, with policies on environmental protection especially favoured. Part of the reasoning here is that there would be scope for what is known as the 'double dividend' arising from raising income *and* providing incentives to allocate resources away from damaging activities (this, it should be noted, is contrary to the usual tax tenet that a tax should not distort economic activity, but is defended because it deals with the negative side-effects of the market solution).

Some such resources could be introduced relatively straightforwardly, while others would be more complicated and might even require Treaty change. For all of these, the presumption is that the impact on the aggregate fiscal burden would be neutral, in that Member States would (unless they chose not to for other reasons) face a lower bill for the GNI resource that would enable them to cut other taxes. In the former category, among the options considered most promising are: to use a flights duty modelled on the one shortly to be introduced in the UK to replace the current passenger duty; the proceeds of selling emissions trading permits, as the EU has now decided to auction permits; and possibly a carbon tax. An option which has long been canvassed, but which would require Treaty change, would be the monetary income of the central banks. Despite the constitutional problems and the fact that national central banks are vehemently opposed to the idea, there is a very clear connection to EU policies (monetary union), although there is the very obvious problem that the membership of the EU and of the euro area are unlikely to coincide for the foreseeable future. This suggests that using monetary income is a long-range option.

Corrections or equalisation

Rebates and other forms of ‘correction’ of net budgetary balances have become one of the most contentious aspects of own resources. The general stance adopted in this study is that these corrections are the result of failings in the overall budgetary decision-making and not just a revenue side issue. That said, if corrections need to be made, it is generally better for them to be done on the revenue side, rather than by distorting expenditure. A related, but conceptually distinctive, issue is whether there should be equalisation through the revenue side of the budget. In many tax systems, it is common for there to be a progressivity in direct taxation, with a larger proportion of income being paid as taxes for those on higher incomes.

Scenarios for the evolution of own resources

Although it is always possible to reform components of the own resources system separately, a lesson of history is that any reform comes as a broad package of measures. For this reason the study has developed a number of scenarios concerning the future of the revenue side of the budget. These are intended to be internally coherent but also to reflect different approaches to reform. Two principal dimensions have been built into these scenarios: time and the extent of reform, yielding four in total. The ‘Minimum reform’ scenario is considered to be little more than a tidying-up exercise, while more extensive reform towards ‘Community own resources’ is mainly predicated on a significant increase in the share of community own resources replacing national contributions. In a fifth, more radical scenario labelled ‘Taxation with representation’, the study looks at what would be implied by a more politicised own resources system in which the European Parliament becomes much more central in revenue-raising.

The different elements in a package comprise:

- The mix of revenue instruments which, in turn, depends on the normative preferences that are built into the revenue side
- How to ensure that revenue matches expenditure and respects the balanced budget rule
- If imbalances among Member States on the expenditure side result in a political decision to have compensatory revenue side corrections, how these should be structured
- Whether to build any explicit equalisation into the revenue side
- Whether or not to countenance Treaty change in the scenario or in variants of it

The five scenarios are as follows:

- *Minimum reform 2013* in which the main change is a simplification through the abandonment of the VAT resource, but in other respects largely maintains the status quo of the existing system
- *Community own resources 2013*, with the introduction of a new resource to provide for at least 25% of the budget. The resource in question should not entail any Treaty change and could be either an EU wide flights duty on the UK model, or the proceeds of emissions trading permits. A variant discusses a shift to a larger Community share over a longer period.

- *Minimum reform 2020* would retain national contributions as the main source of funding, but introduce a degree of equalisation on the revenue side by making gross contributions progressive, although without going too far in this direction. The scenario also assumes that sufficient progress on the expenditure side has been made to render corrections to compensate for imbalances unnecessary.
- *Community own resources 2020* posits new resources that, assuming that the TOR continue to provide 10% of the funding, provide at least half the required funding, implying 40% or more from new resources. There are various options for this share of the genuine own resources (tax or non-tax). From a purely legal point of view, most such options would not require treaty change, especially since the Lisbon treaty has extended the role of the European Parliament in the budget procedure. This scenario calls for revenues resulting from EU policies (such as the proceeds of the auction of emissions trading permits, or the monetary income of the ECB) to become EU resources, although in a variant, these could be replaced by more conventional tax-based resources. Only if it were decided to give the European Parliament the primary say in choosing resources and if the ECB monetary income were retained would treaty changes be necessary. *Taxation with representation*, though possibly unrealistic from today's vantage point, allows for a substantially bigger budget and envisages a budget predominantly funded by genuine own resources. Given the size of the funding requirement, the choice would be between VAT, corporate income tax and an eco-tax, all of which would be reasonable options. Again, Treaty change would be needed.

Conclusions and recommendations

There is no ideal way of funding the EU budget and it is an illusion to believe that there can be a single solution that will satisfy all the economic and political imperatives that the revenue side has to reconcile. The existing system is satisfactory from a number of perspectives, especially in assuring sufficient revenue and in providing a tolerably fair form of burden-sharing. It is also capable of accommodating changes in the scale of the EU budget, so that if sufficiency is the over-riding concern, the existing system will remain satisfactory for most conceivable developments of the EU budget. Yet it is also open to criticism that it flouts principles of autonomy, accountability and visibility.

For these reasons, this study argues for a 'communitarisation' of the revenue side and for a playing-down of net balances as the organising principle for the revenue side – recognising that the latter is not yet going to be easy politically. The way forward advocated in this study is to establish a clear set of preferences for what the most important characteristics are and to shape the system accordingly. Consequently the normative dimension has to be prominent and should be the primary decision.

On this basis, the choice between different funding instruments, means of correcting imbalances or equalisation mechanisms becomes a second-order decision, and inverts what has become the conventional way of looking at the different options. Instead of assessing how VAT, corporate income tax, a generalised correction mechanism or any other form of abatement scores on a range of criteria, the conclusion of this study is that it is the weightings assigned to different criteria that should determine which option should be selected. With these considerations in mind, we have a preference for funding resources which have a direct link to Community aims or policies, have 'double dividend' properties and can be visible to citizens. In the same vein, we argue that in a well-conceived EU budget there should be no need for correction mechanisms and that any continuing need for them is a second-best resulting from a failure to reconfigure the expenditure side appropriately. At the same time, this study argues for a degree of equalisation to be built into the revenue side through differentiated payments of national contributions, to be determined by fiscal capacity. Here again, the precise mechanism should be regarded as a second-order question.

In the light of these broad aims, the proposed way forward for the revenue side is to move by stages towards a new system in which the eventual goals are the introduction of new Community own resources with the aim of reducing the share of national contributions to 50% or lower, an end to correction mechanisms and the introduction of a limited degree of equalisation through the revenue-side. None of these elements is, on its own, especially demanding from a technical perspective.

For a new EU resource, we propose to start – ideally for the period from 2013 when a new MFF is due - with a flights duty that can be set at a level close to that envisaged for the one due to be introduced shortly

in the UK. Together with TOR, this would allow for up to 30% of the EU's funding to be raised from community resources. The preparatory work undertaken by the UK Treasury for the introduction of the duty has addressed many of the issues of practicability, and has also identified as a possible objection for a country going it alone with such a duty that it would lead to avoidance by passengers who elect to use competing airports in other EU Member States for connecting flights. An EU-wide duty would eliminate nearly all such competition, and it is not inconceivable that the small number of potential competitors in other European countries – above all Zurich airport – could be persuaded to join.

An alternative or additional community resource could be developed from either the proceeds of emissions trading auction or from a carbon tax, such as duties on motor fuels. If it were additional, it might be used to raise the share of Community resources to at least 50%. If a political decision were taken to aim for a higher share, these resources have sufficient capacity to go further.

If a much more ambitious EU budget, requiring significantly higher funding than the present own resources ceiling of 1.24% of GNI is ever on the agenda, and if it were to be funded substantially by community resources, a different approach would be needed. Subject to adequate harmonisation (which will not be easy to achieve), a reasonably good solution would be to assign corporate income tax wholly or partly to the EU level. Such a shift would be consistent with a well-functioning single market and would diminish distortions resulting from companies declaring profits where rates are lowest, rather than where the profits arose.

Although the best solution would be for corrections to be phased-out, if they continue to be necessary for political reasons, the approach we recommend is to start by calculating a target net balance for each Member State. The decision-making sequence would then be that expenditure is decided, then revenue instruments are adapted to obtain the required revenue. When calculating net balances, there are categories of EU spending that should be outside any such computations, including the EU's costs of administration and whatever can be identified as pure public goods. The precise delimitation will be a matter for negotiation but is conceptually clear.

Assuming that a Treaty change that relaxed the obligation to balance the budget is unlikely, a residual resource will always be required. So long as there is a national contribution based on GNI, this is assured. However, a more radical solution could be to use central bank monetary income as an alternative, albeit one that would require Treaty change and could thus not be introduced soon.

If a degree of equalisation is to be built into the revenue side, the solution advocated by this study is to introduce a progressive element to the national contributions component of funding. In the first instance this could be to have different contribution bands, although a formula that progressively increased the proportion of GNI contributed would avoid problems likely to emerge for countries close to the relevant boundaries.

In terms of the scenarios outlined above, the sequence advocated is to implement the two 'community own resources' scenarios, in two stages. The conclusion of this study is that neither of the minimum reform scenarios is sufficient, while the 'taxation with representation' one is a step too far for the EU without a sea-change in the deepening of European integration.

Résumé

L'accord budgétaire adopté en décembre 2005 pour la période 2007-2013 prévoyait un réexamen à mi-parcours, sans tabous, du budget européen, concernant tant le volet recettes que celui des dépenses. La présente étude a pour ambition d'éclairer le débat sur le financement, en s'efforçant d'apporter des réponses à deux grandes questions : celle, d'abord, des performances du dispositif actuel de financement ; celle, ensuite, des améliorations envisageables.

Le volet recettes du budget européen comporte plusieurs aspects sur lesquels il convient de se prononcer pour répondre de manière convaincante à ces deux questions : la nature des instruments de financement utilisés – les « ressources propres » (RP) – et la manière dont les décisions sont prises les concernant ; les modalités par lesquelles les contributions jugées excessives font l'objet de corrections ; la manière, enfin, dont on assure le respect de l'exigence de couverture des dépenses par les recettes, conformément à l'Article 268 du traité.

Ces divers éléments sont les constituants indispensables de tout ensemble de mesures organisant le volet recettes du budget ; ils ont fait l'objet de différents arrangements depuis que celui-ci a été doté de ressources propres, au début des années 1970. C'est donc cet ensemble de dispositifs qu'il convient d'évaluer, tant dans les jugements que l'on passe sur les modalités actuelles de financement que dans les réflexions prospectives sur son devenir : il ne suffit pas de considérer isolément telle ou telle proposition de ressource nouvelle ou tel ou tel projet de réforme des mécanismes de correction.

L'Article 269 du traité énonce que « le budget est entièrement financé par des ressources propres ». Dans le dispositif actuellement en vigueur, les recettes proviennent de quatre ressources propres : deux d'entre elles – les prélèvements agricoles et les droits de douane -- sont dites « ressources propres traditionnelles » (RPT) ; la troisième est assise sur un système de préemption harmonisé des recettes de TVA des Etats membres ; la quatrième est une contribution nationale assise sur le Revenu national brut (RNB) des Etats membres. Cette dernière a un caractère résiduel, dans la mesure où son montant est fixé de telle sorte que le budget est équilibré : ceci garantit que les recettes totales sont toujours suffisantes, propriété importante du dispositif actuel de financement qui évite les incessantes disputes acrimonieuses qui avaient émaillé les débats avant l'introduction de cette quatrième ressource.

Au fil des ans, la ressource RNB est devenue la principale source de recettes, éclipsant progressivement la ressource TVA et les RPT. Cependant, bien qu'étant, d'un point de vue légal, une ressource propre au sens des traités, ces contributions ont, d'un point de vue économique, davantage la nature d'un transfert intergouvernemental que d'un instrument de financement qui serait partie intégrante du niveau européen de gouvernance. Elles ont, de ce fait, été l'objet de nombreuses critiques, notamment de la part du Parlement européen, tandis que les Etats membres, au contraire, sont, pour l'essentiel, favorables à ce dispositif, qui s'intègre aisément dans les mécanismes des finances publiques nationales, présente une grande simplicité de gestion et que la plupart considèrent comme équitable.

Il apparaît toutefois que la montée en puissance de la ressource RNB est allée de pair avec un recours croissant à des mécanismes de correction mettant en jeu des montants sans cesse croissants. Pour des nombreux Etats membres, le caractère équitable de la ressource RNB est menacé par l'ampleur de ces corrections, de sorte que c'est l'ensemble de ces dispositifs qu'il convient d'évaluer simultanément pour passer un jugement sur le financement du budget européen.

Les mécanismes de correction ont, en effet, proliféré depuis l'accord de Fontainebleau qui, en 1984, a donné naissance au « rabais » britannique. La plupart des observateurs considèrent que c'est avant tout la répartition trop inégale des dépenses (en particulier au titre de la Politique agricole commune, PAC) entre Etats membres, notamment lorsque ceux-ci ont des niveaux de prospérité économique comparables, qui est à l'origine des pressions politiques en faveur de corrections, bien que certains écarts dans les contributions brutes soient également invoqués par certains.

Même si tous ces dispositifs de correction visent à réduire les « contributions nettes », les mécanismes mis en œuvre varient sensiblement : alors que le « rabais britannique » est calculé sur la base de la contribution nette du Royaume-Uni et s'ajuste donc au gré des variations de cette mesure, les allègements temporaires de taux d'appel de la ressource TVA ou de la ressource RNB accordés à quatre autres Etats membres sont des corrections fixes, invariantes aux circonstances.

Parce qu'il a permis d'assurer parfaitement le financement des dépenses du budget européen, le dispositif actuel satisfait à la première exigence des Etats membres et des autorités budgétaires européennes. On

pourrait imaginer de la simplifier en consolidant la ressource TVA – qui n’est plus guère reliée aux recettes effectives de TVA des Etats membres et dont l’importance relative a fondu ces dernières années – avec la ressource RNB, de sorte que le financement ne soit plus assuré que par cette dernière et par les deux RPT.

La combinaison du caractère résiduel de la ressource RNB, du plafond de ressources propres et du cadre financier pluriannuel complique la conception d’une réforme qui concilie la poursuite des objectifs prioritaires de stabilité et de suffisance des ressources avec l’exigence d’équilibre budgétaire. Mais il est clair que tout autre dispositif comportant une ressource résiduelle, de quelque nature qu’elle soit, aurait des propriétés similaires au regard de ces trois critères.

Néanmoins, il faut, pour justifier de tels changements, accorder aux critères autres que celui de suffisance des recettes un poids plus important. Ces autres critères pertinents sont, en réalité, assez nombreux, qu’ils proviennent des analyses de finances publiques, qui mettent l’accent sur les vertus des systèmes dans lesquels chaque niveau de gouvernement lève les recettes qui financent les dépenses qui sont ordonnées à ce niveau, ou de considérations plus politiques en termes de responsabilisation des décideurs européens ou de transparence. De même, on pourrait souhaiter une meilleure adéquation entre les sources de recettes et les objectifs des politiques communes européennes, telles que la lutte contre le changement climatique ou un meilleur fonctionnement du marché unique européen. Un poids plus important accordé à de telles finalités, à côté des critères plus strictement budgétaires, conduirait à recommander une réforme dans laquelle de nouveaux instruments de financement – fiscaux ou non – seraient affectés à l’échelon européen et dans laquelle les mécanismes de correction seraient de nature différente.

Notre étude recommande de procéder en trois étapes :

- *La première consiste à adopter des principes généraux sur le dispositif de financement, concernant les proportions respectives des contributions nationales et des véritables ressources propres communautaires, l’existence de mécanismes de correction destinés à compenser l’inégale incidence des dépenses entre Etats membres, et la mise en œuvre d’une péréquation sur les seules recettes.*
- *En second lieu, il importe de se prononcer sur la nature et la pondération des critères normatifs qui doivent guider les choix de financement. Cette étape est absolument décisive et nécessite d’organiser un vaste débat sur les poids qu’il convient d’affecter aux différents critères.*
- *Enfin, et cette décision apparaît d’une importance relativement moindre, les critères ainsi pondérés pourront être utilisés pour sélectionner les recettes et les mécanismes qui correspondent le mieux aux préférences ainsi définies.*

Il importe de souligner qu’il ne peut, dès lors, pas exister de solution idéale. On peut toutefois illustrer cette démarche à l’aide de quelques exemples :

- *Diverses variantes d’une « taxe carbone » -- y compris les recettes de la vente aux enchères des permis d’émission – pourraient aisément être mis en cohérence avec la politique de lutte contre le changement climatique.*
- *Bien qu’elle implique une modification des traités qui la rendent plus difficile, l’attribution au budget européen des revenus monétaires de la Banque centrale européenne (BCE) pourrait être justifiée par le constat que l’Union économique et monétaire (UEM) est l’une des compétences économiques majeures de l’UE, de même que les recettes des ventes aux enchères des permis d’émission pourraient l’être.*
- *Une véritable TVA européenne – et non le mécanisme édulcoré de l’actuelle ressource TVA – pourrait être un moyen de rendre le financement des dépenses européennes plus visible pour les citoyens, surtout si le montant de la TVA européenne apparaissait séparément sur les étiquettes. Et il en irait de même pour une taxe sur les transports aériens au départ des aéroports européens, qui aurait aussi des avantages en termes de politique climatique.*

L’analyse indique que chacun des instruments de recettes existants ou envisageables présente des avantages et des inconvénients au regard de chacun des critères retenus. Notre propos est donc de mettre en lumière ces différents arguments afin d’éclairer les choix politiques qui devront nécessairement guider toute réforme du financement du budget européen.

Toute réforme devra également prendre en compte le point de départ – les dispositifs existants – et prévoir la transition de toutes ses composantes vers un système plus efficient, car la qualité du mode de financement des

dépenses européennes dépendra, en dernier ressort, de l'interaction des éléments qui le composent et des conséquences de cette interaction sur la résolution de problèmes tels que celui du « juste retour ».

Pour mettre en œuvre cette démarche, notre étude propose cinq scénarios qui se distinguent par l'échelle de temps que chacun semble devoir raisonnablement requérir et par l'ambition qu'il traduit. Le premier horizon temporel est 2013, qui correspond à la fin de la période de programmation financière pluriannuelle actuellement en cours ; le second à la fin de la période pluriannuelle suivante, c'est-à-dire 2020 si la périodicité de sept ans devait être maintenue, mais qui pourrait être avancée si cette périodicité devait être raccourcie, ce que permet le traité de Lisbonne.

La degré d'ambition des scénarios est reflété dans les appellations : « réforme minimale » désigne ceux qui n'incluent que des changements mineurs par rapport au status quo, tandis que « ressources propres communautaires » désigne ceux qui incorporent des modifications plus profondes et l'introduction de nouveaux instruments de financement ; et, dans chacun des cas, on suppose une progression dans l'ampleur des réformes entre 2013 et 2020. Ces quatre premiers scénarios sont bâtis sur l'hypothèse que l'on maintient le caractère intergouvernemental des arrangements budgétaires européens. C'est la raison pour laquelle tous conservent une part de la ressource RNB. En outre, la plupart des changements proposés dans ces scénarios pourraient être mis en œuvre sans modification des traités. Au contraire, le cinquième scénario – baptisé « imposition avec représentation » -- est bâti sur l'hypothèse que, dans un futur indéfini, l'UE évoluerait vers une organisation budgétaire et fiscale comparable à celles que l'on observe dans les fédérations existantes, ce qui, en particulier, exclurait la dimension intergouvernementale des processus de financement.

Aucune proposition de réforme du financement du budget européen ne peut raisonnablement ignorer les sensibilités politiques et la dépendance au sentier, de même qu'il apparaît évident qu'aucune réforme du volet recettes ne peut faire complètement abstraction du volet dépenses. C'est pourquoi nous recommandons l'adoption d'une démarche graduelle, même si les ambitions ultimes sont grandes. Les objectifs généraux qu'il convient de poursuivre, avec des délais de mise en œuvre suffisants, sont les suivants :

- Simplifier le mode de calcul des contributions nationales en consolidant l'actuelle ressource TVA avec la ressource RNB ;
- Faire croître jusqu'à 50% la part du financement provenant de ressources nouvelles en harmonie avec les politiques communes européennes, de préférence celles qui contribuent aux objectifs de l'UE en termes environnementaux. Cette ambition oriente les choix vers une taxe sur les transports aériens de passagers – dans l'hypothèse d'une modeste contribution au financement du budget – ou, dans le cas où l'on viserait un objectif de recettes plus ambitieux, vers l'affectation au budget européen des recettes de la vente aux enchères des permis d'émission et/ou une variante ou une autre d'une « taxe carbone » ;
- A plus long terme, et à condition que l'on résolve les problèmes liés à la définition d'une assiette harmonisée, on pourrait envisager de recourir à l'impôt sur les bénéfices de sociétés ;
- Si l'usage de cet instrument se révèle impossible, en raison d'oppositions politiques fortes, et en dépit du fait que cela requerrait une modification des traités, il convient d'envisager l'affectation des revenus monétaires de la Banque centrale européenne au budget européen ;
- Entamer une stratégie de démantèlement progressif des mécanismes de correction existants et les remplacer par un système de péréquation automatique, dont le calcul repose sur des critères objectifs et opérant uniquement du côté des recettes. Il conviendra de procéder à cette transformation par étapes et elle ne sera possible que si les dépenses sont réformées de manière idoine :
 - Ce nouveau dispositif de péréquation devra reposer sur des principes généraux et des mécanismes aussi objectifs que possible, de manière à éviter tous les arrangements ad hoc ; il devra faire en sorte que la capacité contributive des Etats soit le critère principal dans la détermination des contributions nationales brutes.
 - Plusieurs formules sont envisageables, mais l'étape initiale, essentielle, implique une volonté politique.
- Lancer un grand débat public, en rendant les enjeux explicites, sur l'équilibre, au sein du budget européen, entre les dépenses destinées aux biens publics européens et les mécanismes qui, du côté des recettes comme du côté des dépenses, ont un objectif de redistribution.

Résumé non technique

Les conclusions du Conseil européen de décembre 2005 qui a adopté le cadre financier pluriannuel 2007-2013 prévoyaient un réexamen en 2008-2009, réexamen complet et sans interdictions, tant du volet dépenses que du volet recettes du budget européen. Un document de consultation publié en 2007 par la Commission européenne a énoncé une série de questions et de domaines de discussion. Concernant le volet recettes, ce document soulève deux grandes questions sur le mode de financement futur du budget européen :

Quels principes doivent présider à la détermination des recettes du budget européen et comment doivent être mis en œuvre dans le dispositif des ressources propres ?

Peut-on justifier le maintien de mécanismes de correction ou de compensation ?

Une troisième question, de nature plus politique, et s'inspirant des préoccupations exprimées notamment par le Parlement européen sur la légitimité et la visibilité du système actuel de financement, est également soulevée :

Quelle devrait être la relation entre les citoyens, les priorités politiques et le mode de financement du budget de l'Union européenne.

Objectifs et présupposés de la présente étude

S'inscrivant dans le cadre du réexamen du budget, la présente étude se penche sur la question du financement futur du budget européen, y compris les éventuels mécanismes de correction. Le volet recettes du budget européen comporte plusieurs aspects sur lesquels il convient de se prononcer pour répondre de manière convaincante à ces deux questions : la nature des instruments de financement utilisés – les « ressources propres » (RP) – et la manière dont les décisions sont prises les concernant ; les modalités par lesquelles les contributions jugées excessives font l'objet de corrections ; la manière, enfin, dont on assure le respect de l'exigence de couverture des dépenses par les recettes, conformément à l'Article 268 du traité. Dans les systèmes budgétaires à plusieurs niveaux, de telles obligations d'équilibre budgétaire sont habituellement imposées par les gouvernements centraux aux niveaux infranationaux de gouvernement dont on cherche à limiter les dépenses.

Les travaux préparatoires à cette étude ont comporté une revue approfondie de la littérature académique existante, analyses théoriques, études empiriques et pratiques politiques. Notre travail empirique a inclus des analyses quantitatives et qualitatives, des échanges nombreux avec des praticiens et une enquête conduite auprès des responsables de ces questions dans les Etats membres – principalement, mais pas exclusivement des fonctionnaires des ministères nationaux des finances et/ou du budget. Cet ensemble de travaux de recherche s'est efforcé de répondre à deux grands types d'interrogations : d'une part, l'évaluation des performances du système de financement actuellement en vigueur ; d'autre part, l'analyse systématique des différentes options envisageables pour une éventuelle réforme.

Financement : le dispositif actuel

Les recettes assurant le financement du budget européen proviennent de quatre sources : deux d'entre elles – les prélèvements agricoles et les droits de douane -- sont dites « ressources propres traditionnelles » (RPT) ; la troisième est assise sur un système de préemption harmonisé des recettes de TVA des Etats membres ; la quatrième est une contribution nationale assise sur le Revenu national brut (RNB) des Etats membres. Au fil des ans, la ressource RNB est devenue la principale source de recettes, éclipsant progressivement la ressource TVA et les RPT. Cependant, bien qu'étant, d'un point de vue légal, une ressource propre au sens des traités, ces contributions ont, d'un point de vue économique, davantage la nature d'un transfert intergouvernemental que d'un instrument de financement qui serait partie intégrante du niveau européen de gouvernance. Elles ont, de ce fait, été l'objet de nombreuses critiques, notamment de la part du Parlement européen, tandis que les Etats membres, au contraire, sont, pour l'essentiel, favorables à ce dispositif, qui s'intègre aisément dans les mécanismes des finances publiques nationales, présente une grande simplicité de gestion et que la plupart considèrent comme équitable. Le montant des contributions nationales assises sur le RNB est déterminé sur la base des besoins de

financement des dépenses, de sorte que cette ressource a un caractère résiduel qui assure que le budget annuel est équilibré.

Divers mécanismes de correction sont mis en œuvre du côté des recettes du budget européen, dans le but de réduire les contributions nettes d'un certain nombre d'Etats membres. Le plus ancien de ces dispositifs de correction est le « rabais britannique », institué en 1984 et sans cesse reconduit, avec quelques modifications, depuis lors ; entrent également dans cette catégorie les taux réduits de contribution au rabais britannique – dits « rabais sur le rabais » -- qui avaient été initialement consentis, en 1999, à l'Allemagne, puis à l'Autriche, aux Pays-Bas et à la Suède, ainsi que plusieurs mécanismes ad hoc qui ont été imaginés plus récemment pour réduire davantage les contributions des ces mêmes pays.

Le dispositif budgétaire inclut également le plafond sur ressources propres, actuellement fixé à 1,24% du Revenu national brut (RNB). Bien que ce plafond détermine le montant maximum des dépenses, il convient de souligner que le Conseil a toujours choisi un montant maximum de dépenses bien en deçà du plafond légal, et que les dépenses effectives ont été elles-mêmes systématiquement très inférieures à ce plafond : dans le cadre financier pluriannuel 2007-2013, le montant projeté des dépenses est, en moyenne, légèrement supérieur à 1% du RNB, mais s'inscrit sur une pente décroissante, devant atteindre seulement 0,94% du RNB en 2013.

Les fondements d'un financement sur ressources propres

La première justification de l'existence d'un système de ressources propres est la nécessité, évidente, de lever des fonds suffisants pour couvrir les dépenses de l'UE. Cependant, un tel système contribue aussi à la poursuite d'autres objectifs et doit également satisfaire différents critères. Certains de ceux-ci sont couramment admis, d'autres sont objets de controverses. Parmi ces critères, citons :

- *une répartition politiquement acceptable des contributions des Etats membres ;*
- *l'efficacité économique des instruments de financement ;*
- *l'autonomie financière du niveau européen de décision ;*
- *le fait que les instruments de financement contribuent efficacement à la poursuite des objectifs politiques de l'UE ;*
- *le respect d'un certain nombre d'autres impératifs politiques, tels que la sensibilisation des citoyens européens et la visibilité, pour eux, du dispositif de finances publiques européennes ;*
- *le respect des traités.*

Ces diverses exigences et attentes peuvent ne pas être compatibles les unes avec les autres, ce qui nécessite des arbitrages entre objectifs potentiellement inconciliables. Dès lors, il est inévitable que des divergences d'opinion apparaissent quant au système souhaitable, et l'on doit admettre qu'aucun dispositif de financement n'est idéal. Il convient donc, dans toute évaluation du dispositif actuel et des réformes envisageables, de combiner des considérations positives et normatives pour élaborer une analyse convaincante.

Bien qu'il existe une masse considérable de travaux académique et appliqués sur la politique fiscale, sur les relations financières entre niveaux de gouvernement et sur les choix publics, cette littérature est apparue relativement peu pertinente pour analyser la question du financement du budget européen. La principale difficulté de ce point de vue tient à ce que, dans les autres systèmes de gouvernement à plusieurs niveaux, l'échelon central prélève généralement la part la plus importante des recettes publiques totales, et, contrairement au cas l'UE, joue un rôle majeur dans les affaires budgétaires des niveaux inférieurs de gouvernement. Ce n'est, à l'évidence, pas le cas de l'Union européenne, et il est peu probable que cela le devienne prochainement. De même, l'UE est autre chose, et davantage qu'une organisation internationale telle que le FMI ou les Nations Unies, et notre étude, partant de ce constat, conclut que l'exemple du financement de ces organisations n'apporte pas d'éclairage pertinent sur la question du financement du budget européen. Au contraire, il apparaît que le caractère unique – souvent désigné par l'expression de « sui generis » -- de l'UE implique l'adoption d'une démarche spécifique.

Evaluation du dispositif existant

Le système actuel de ressources propres présente un certain nombre de traits positifs. Le plus important est, peut-être, qu'il assure un flux de recettes suffisant et stable grâce à l'existence d'une ressource – les

contributions RNB – qui s’ajuste de manière flexible aux exigences du financement des dépenses. Cette propriété est appréciable, non seulement parce qu’elle garantit que l’UE ne rencontre aucune difficulté à lever les fonds dont elle a besoin et à équilibrer son budget, mais également parce que l’on évite ainsi toutes les complications qui pourraient naître du constat que telle ou telle source de financement a un rendement moindre que prévu. La flexibilité du système actuel assure également qu’il puisse répondre, à l’intérieur de limites fixées par le plafond de ressources propres, à toute variation du montant des dépenses de l’UE.

Dans l’ensemble, les informations recueillies dans notre enquête et les autres indications fournies par des représentants des Etats membres suggèrent que le système actuellement en vigueur est considéré comme satisfaisant et aisément gérable par les administrations des Etats membres, bien que beaucoup considèrent que la ressource TVA ne fait qu’ajouter une complexité inutile. Le système est également perçu comme étant raisonnablement équitable, du moins en termes de contributions nationales brutes avant correction.

Toutefois, beaucoup considèrent que les différents mécanismes de correction compromettent l’équité du système. Certains critiquent également l’opacité et la complexité du mode de financement et, plus encore, des mécanismes de corrections, qui ont proliféré. En outre, on souligne souvent que le dispositif actuel de financement incite les Etats membres, en particulier les contributeurs nets, à s’intéresser exclusivement aux « soldes nets comptables », alors que ceux-ci ne donnent, dans le meilleur des cas, qu’une indication très partielle de ce qu’est réellement le « juste retour » du budget européen, sans parler des bénéfices découlant de l’appartenance à l’Union.

Un autre ensemble d’objections au système de financement actuellement en vigueur est d’inspiration plus franchement politique. En premier lieu, on souligne souvent que les citoyens n’ont aucun moyen direct d’influence sur le mode de financement de l’UE et ne peuvent donc pas exprimer leurs préférences, ce qui donne l’impression que ce sont les Etats membres, et non les citoyens, qui sont les véritables contribuables européens. Le Parlement européen dénonce avec véhémence cette entorse aux processus politiques en usage dans les démocraties, et a régulièrement critiqué le manque de visibilité des ressources budgétaires de l’UE. Un argument voisin souligne que l’attention croissante que les Etats membres accordent aux soldes nets comptables a tendu à occulter le principe de solidarité financière, pourtant inscrit dans les traités ; il se pourrait même que cette logique comptable ait nui au financement des biens publics européens, les gouvernements nationaux ayant été plus préoccupés par l’amélioration de leur solde net comptable que par l’objectif de faire en sorte que les biens collectifs disposent d’un financement suffisant et que l’argent soit dépensé de manière appropriée.

La logique comptable des soldes nets tend à présenter le budget européen comme un jeu à somme nulle, dans lequel les flux financiers nets reçus par les uns sont exactement compensés par les flux financiers nets versés par les autres. Au contraire, dans une logique de biens publics, le budget est généralement un jeu à somme positive, même si les gains peuvent ne pas être répartis de manière uniforme ou équitable. Il convient également de prendre en considération les effets induits par les dépenses budgétaires européennes, notamment dans le cas de fonds de cohésion : une fraction probablement importante, bien que difficilement estimable en toute généralité, des fonds versés aux bénéficiaires de ces politiques revient, en réalité, aux économies des Etats qui les financent, sous forme de commandes adressées notamment à leurs entreprises de bâtiment et travaux publics et de matériels d’équipement. En outre, ces dépenses ont, en général, un effet macroéconomique multiplicateur, le surcroît de demande ainsi engendré dans le pays bénéficiaire de cette politique ayant des effets positifs sur la demande adressée aux pays qui la financent. Il est difficile d’évaluer avec précision ces effets, notamment parce qu’il n’est pas simple de définir de manière convaincante le contrefactuel, c’est-à-dire ce qui se serait passé en l’absence de ces transferts. Et il reste que, même si une partie des bénéfices reflue vers les économies des pays contributeurs, c’est bien le pays où sont implantés les équipements publics financés par le budget de l’UE qui, généralement, bénéficie du gain le plus important. Mais en définitive il apparaît que l’évaluation des gains nets des différents pays nécessite des analyses plus fines que celles que suggèrent les outils purement comptables.

Réformer le dispositif de financement

C'est sur la base des priorités que les décideurs publics souhaitent assigner au budget européen et à son financement que doit être établie l'argumentation en faveur de toute réforme du dispositif de financement. En effet, si le seul aspect pris en considération devait être l'assurance que le budget est financé de manière suffisante et fiable, on pourrait difficilement s'opposer à la continuation du dispositif actuel dominé par les contributions RNB, bien que cela n'exclue pas que l'on souhaite en modifier les modalités précises pour en répartir différemment la charge financière. Si au contraire, la priorité devait être le lien avec les citoyens ou une attention plus importante accordée au financement des biens public européens, les arguments en faveur de véritables ressources propres, plutôt que des contributions nationales, s'en trouveraient renforcés. Dès lors, la première question à laquelle il convient de répondre est celle de la pondération des différents objectifs.

La position adoptée dans la présente étude sur cette question cruciale part du postulat que la nature duale de l'Union européenne – une union d'Etats membres et de citoyens – devrait avoir une traduction visible dans le dosage des modes de financement, ce qui implique un accroissement substantiel de la part communautaire, par rapport à une situation actuelle où cette part, qui correspond à celle des ressources propres traditionnelles, est faible. Toute proposition de réforme doit, cependant, comporter également des suggestions sur les autres aspects du système de financement et ne peut être cantonnée à la simple substitution d'une nouvelle ressource communautaire à une partie des contributions nationales actuelles.

La présente étude commence par aborder la question du choix des instruments de financement du budget européen et plaide en faveur d'une procédure de choix hiérarchisée. La première étape consiste à choisir la part du financement qui doit être assurée par chacune des deux grandes catégories d'instruments, les contributions nationales et les ressources communautaires. Les auteurs de cette étude ne voient aucune raison de ne pas continuer à allouer les recettes des ressources propres traditionnelles au budget communautaire, même s'il semble clair que la tendance à la décroissance relative de leur rendement devrait se poursuivre. A titre d'illustration, on suppose que cette part se stabilisera aux alentours de 10% d'un budget européen dont la taille totale demeurerait proche de 1% du RNB, ce qui implique sur la décision sur d'éventuelles nouvelles ressources concerne les 90% restants. Si toutefois la réforme du volet dépenses du budget devait se traduire par un accroissement substantiel – ou à l'inverse par une réduction – de la taille du budget, il conviendrait d'ajuster ces paramètres en conséquence.

La proportion du RNB qu'il incombera alors de lever au moyen de ressources communautaires aura alors des implications en terme de choix entre les différents instruments : si la recette attendue devait être inférieure à 0,35% du RNB, on pourrait choisir parmi un éventail très large d'instruments de financement ; si, en revanche, on devait en attendre un rendement supérieur à 1% du RNB, il conviendrait alors de faire porter le choix sur l'une des assiettes fiscales dont les Etats membres tirent eux-mêmes une part substantielle de leurs recettes budgétaires, qu'il s'agisse des taxes sur la consommation – principalement la TVA et les accises --, de l'impôt sur le revenu des personnes, de l'impôt sur les bénéfices des sociétés ou des impôts sur le capital. Notre étude a, en revanche, exclu d'emblée les impôts fonciers et les impôts sur les revenus du travail.

Parmi les instruments fiscaux dont l'assiette est assez large, la TVA a un rendement plus stable et peut être considérée comme plus équitable, entre Etats membres, qu'un impôt sur le revenu des personnes ou sur les bénéfices des sociétés, dans la mesure où l'assiette et les modes de taxation de la première sont relativement plus homogènes que ceux des deux autres. En outre, l'impôt sur le revenu des personnes et les accises – à l'exception, peut-être, de celles qui pèsent sur les carburants -- sont, généralement, considérés comme étant politiquement plus sensibles que la TVA, dans la mesure où ces instruments sont utilisés par les gouvernements nationaux avec des objectifs redistributifs (l'impôt sur le revenu) ou sociaux, comme la lutte contre l'alcoolisme. Ces complications additionnelles nous incitent à les exclure de l'éventail d'options prises en considération. En principe, les impôts sur le capital ou sur ses revenus, et notamment l'impôt sur les bénéfices des sociétés, constituent des instruments plus crédibles pour le financement du budget européen, en raison notamment de l'existence du marché unique qui rend de plus en plus problématique la localisation effective de l'assiette de cet impôt (le bénéfice imposable), par opposition au pays dans lequel il est déclaré. Il apparaît, en effet, que certains pays membres ont

délibérément cherché à attirer des sièges sociaux d'entreprises multinationales dans le but d'accroître les recettes fiscales qu'ils engendrent.

Le choix des instruments

Notre étude montre qu'il n'existe pas d'instrument idéal de financement du budget européen, mais aussi qu'à l'inverse, la liste des instruments qui pourraient satisfaire plusieurs critères est assez longue. C'est la raison pour laquelle nous considérons que, si l'on devait décider d'introduire une nouvelle ressource propre, le choix de l'instrument serait de second ordre, et devrait être fait sur la base des préférences des décideurs publics plutôt que sur celle de critères purement objectifs. Les travaux qui ont été menés dans le passé sur ces questions nous permettent d'identifier plusieurs critères pertinents, qui sont pour la plupart issus de la littérature sur les finances publiques. Parmi ceux-ci, citons : l'équité horizontale entre les citoyens, la minimisation des distorsions engendrées par le prélèvement dans l'affectation des ressources privées, ainsi qu'une multitude de critères de nature administrative, tels que les coûts de collecte, le rendement, sa stabilité et son potentiel de croissance, les possibilités d'évasion ou les possibilités de l'éviter. Ces critères sont, pour la plupart, applicables à **n'importe quel** système fiscal, et il convient donc, dans le présent contexte, de les compléter par d'autres, qui soient plus spécifiquement reliés aux aspects européens. Parmi ces derniers, on peut citer l'équité horizontale entre Etats membres, les relations avec les politiques communes et la visibilité pour les citoyens, ainsi que, d'une manière sans doute plus discutable, le souci de renforcer l'autonomie financière de l'UE. A l'inverse, des considérations en termes de subsidiarité ou de sensibilités nationales spécifiques peuvent être invoquées pour opposer un veto à certaines catégories d'instruments fiscaux, notamment lorsque ceux-ci sont étroitement associés à des objectifs nationaux.

Sur la base de ces différents critères, une TVA « modulée », dans laquelle un ou deux points du taux applicable dans chaque pays seraient affectés au financement du budget européen, apparaît comme un candidat particulièrement sérieux, du moins parmi les instruments que se partageraient les Etats membres et l'UE, dans la mesure où l'assiette de cet impôt est large et relativement harmonisée. La TVA présente toutefois aussi l'inconvénient non négligeable que l'harmonisation entre Etats membres est loin d'être complète, ce qui pourrait susciter des pressions de la part de certains Etats membres pour ajuster les rendements, avec l'argument de l'équité entre Etats membres. C'est exactement ce qui s'est produit avec la ressource TVA dans les années qui ont suivi son adoption, à la fin des années 1970 : le risque est donc grand de voir, avec l'adoption d'une ressource TVA, un « retour vers le futur », ce qui rend cet instrument sensiblement moins attrayant que ce que beaucoup imaginent.

Parmi les impôts à assiette large, le seul autre prélèvement qui constitue une alternative viable est, selon nous, l'impôt sur les bénéfices des sociétés (IS), tous les autres devant être considérés comme politiquement sensibles. Le principal avantage d'une européanisation de l'IS proviendrait de la réduction des pratiques d'optimisation fiscale des entreprises multinationales, ce qui rendrait moins arbitraire la répartition géographique des bénéfices imposables. D'autre part, l'IS a une assiette beaucoup plus étroite que la TVA – bien que largement suffisante pour assurer l'intégralité du financement d'un budget européen de la taille actuelle –, son rendement est plus volatile et sensible aux fluctuations économiques et il n'est pas encore harmonisé. Il ne s'agirait donc d'une solution possible qu'à la condition que l'on s'accorde d'abord sur le projet de base commune consolidée.

Beaucoup d'autres instruments ont été évoqués, mais ils ont généralement des potentiels de rendement moindres. Nous avons, dans cette étude, accordé la priorité aux ressources dont le lien avec les politiques communes européennes, en particulier les politiques environnementales, est suffisamment apparent. A propos de ces instruments, le raisonnement repose sur l'existence possible d'un « double dividende », dans la mesure où ils permettraient à la fois de lever des fonds et de faire naître des incitations dissuadant l'utilisation des facteurs dommageables pour l'environnement. (Il s'agit là, remarquons-le, d'un cas qui déroge aux préceptes fiscaux usuels, selon lesquels il convient d'éviter les distorsions de prix relatifs ; mais ceci est conforme aux conclusions de l'analyse économique dès lors que les équilibres de marché s'accompagnent d'effets externes négatifs.)

Certaines de ces ressources nouvelles pourraient être aisément introduites ; pour d'autres, les choses seraient plus compliquées et certaines ne pourraient l'être qu'au prix d'une modification des traités. Dans tous les cas, notre postulat est que l'impact sur la charge fiscale globale serait nul, dans la mesure où les

Etats membres, confrontés à une réduction de leur contribution nationale, pourraient, sauf s'ils en décident autrement, alléger d'autant leurs propres impôts. Dans la catégorie des ressources ne nécessitant pas de changements institutionnels, les plus prometteuses nous semblent être : un prélèvement sur les transports aériens de passagers, qui pourrait s'inspirer de celui que vient d'adopter le Royaume-Uni ; les recettes de la vente des permis d'émission, l'UE ayant décidé de mettre ces allocations aux enchères ; et éventuellement une taxe carbone. Une autre option est, depuis longtemps, envisageable, mais nécessiterait une modification des traités : il s'agit des revenus monétaires de la Banque centrale européenne. En dépit de la difficulté institutionnelle que soulève cette solution et de l'opposition véhémente qu'elle rencontre de la part des banques centrales nationales, elle a l'avantage de présenter un lien étroit avec l'une des principales politiques communes (l'union monétaire), même si la composition de celle-ci devrait différer de celle de l'UE pendant longtemps encore, ce qui constitue un problème.

Les corrections et la péréquation

Les rabais et autres modalités de « correction » des soldes budgétaires nets nationaux sont devenus l'un des aspects les plus litigieux du système actuel de financement du budget européen. La position sous-jacente à la présente étude est que ces diverses corrections sont le fruit du processus de décision sur le budget tout entier, et pas seulement sur son volet recettes. Ceci étant, si l'on devait maintenir un mécanisme de correction, il serait préférable de le faire sur le volet recettes, plutôt que d'introduire des distorsions dans les choix de dépenses. Une question connexe, bien que conceptuellement distincte, concerne l'éventualité de mettre en place un mécanisme de péréquation sur les recettes. En effet, bon nombre de systèmes fiscaux nationaux présentent une certaine progressivité, du moins en matière d'imposition directe, les contribuables disposant de revenus plus élevés subissant alors un prélèvement proportionnellement plus important.

Scénarios d'évolution des ressources propres

Bien qu'une réforme se cantonnant à l'un ou l'autre des éléments constituant le volet recettes du budget européen soit envisageable, l'histoire nous enseigne que toute réforme réussie se compose d'un ensemble de mesures. C'est la raison pour laquelle la présente étude propose un certain nombre de scénarios d'évolution des recettes du budget européen. Chacun de ces scénarios représente un choix de réforme spécifique, et tous ont été conçus dans le souci d'en assurer la cohérence interne. Ils ont été bâtis selon deux critères principaux : l'horizon temporel, d'une part, l'étendue de la réforme de l'autre. Deux scénarios baptisés « réforme minimale » vont à peine au-delà de l'exercice de remise en état de l'existant ; deux autres, baptisés « ressources propres communautaires » sont construits sur les prémises d'un accroissement substantiel de la part des véritables ressources propres, et d'une réduction corrélative de celle des contributions nationales ; enfin, un cinquième scénario, plus radical, désigné par l'expression « imposition avec représentation », explore une variante plus politisée du système de ressources propres dans laquelle le Parlement européen acquerrait un rôle central dans les décisions sur les recettes du budget européen.

Dans chacun de ces scénarios, les éléments constitutifs sont les suivants :

- *les proportions des différents instruments de financement, qui, à leur tour, dépendent des préférences que doit refléter le volet recettes ;*
- *la manière dont sont assurés la couverture des dépenses par les recettes et l'équilibre budgétaire ;*
- *l'éventuel dispositif de correction des contributions des Etats membres, dans le cas des différences du côté des dépenses sont jugées telles que le maintien d'un tel mécanisme apparaît inévitable ;*
- *l'éventualité d'un mécanisme de péréquation sur les ressources ;*
- *l'éventualité d'une modification des traités.*

Les cinq scénarios sont alors les suivants :

- *Réforme minimale 2013 dans lequel le principal changement consiste en une simplification grâce à l'abandon de la ressource TVA actuelle, tandis que les autres aspects maintiennent, pour l'essentiel, le statu quo ;*
- *Ressources propres communautaires 2103 qui introduit une nouvelle ressource procurant au moins 25% du financement du budget. La ressource propre nouvelle ne doit pas nécessiter de modification*

des traités existants. Il pourrait s'agir soit d'un prélèvement sur tous les transports aériens de passagers au départ des aéroports européens, soit des recettes de la vente des permis d'émission. Une variante de ce scénario envisage la possibilité d'accroître la part de la ressource propre communautaire sur un horizon temporel plus long ;

- *Réforme minimale 2020 conserverait les contributions nationales comme ressource principale, mais introduirait un certain degré de péréquation sur les recettes, en rendant les contributions brutes modérément progressives. Ce scénario suppose également que des progrès suffisants auront été accomplis dans la réforme des dépenses, de sorte que les corrections auront perdu toute justification ;*
- *Ressources propres communautaires 2020 postule que les nouvelles ressources propres apporteront au moins 40% du financement, ce qui, en supposant que les ressources propres traditionnelles continuent de couvrir 10%, revient à assurer au moins la moitié du financement par des ressources propres véritables. Les nouvelles ressources propres peuvent être de différentes sortes, impôts ou autres. D'un point de vue purement légal, la plupart de ces options ne nécessiteraient pas de modifications des traités, d'autant plus que le traité de Lisbonne comporte une extension substantielle du rôle du Parlement européen dans la procédure budgétaire. Dans ce scénario, les nouvelles ressources proviennent d'instruments qui ont un lien avec les politiques communes (recettes de la vente des permis d'émission ou revenus monétaires de la BCE), ou, dans une variante moins ambitieuse, de ressources plus traditionnelles. Seules les éventualités d'un renforcement sensible du pouvoir du Parlement européen dans la décision sur les recettes ou du choix des revenus monétaires de la BCE rendraient nécessaire une modification des traités ;*
- *Imposition avec représentation, qui peut peut-être sembler peu réaliste dans le contexte européen actuel, autorise un accroissement substantiel de la taille du budget européen et envisage un financement assuré essentiellement par des véritables ressources propres. Etant donné le besoin de financement, le choix serait alors entre la TVA, l'IS et une éco-taxe, chacune de ces options apparaissant parfaitement raisonnable. Dans ce cas également, il serait nécessaire de modifier les traités.*

Conclusions et recommandations

Il n'existe de mode de financement idéal du budget européen et il serait illusoire d'imaginer qu'une solution unique puisse satisfaire tous les impératifs, économiques et politiques dont doit tenir compte le volet recettes de ce budget. Le système actuellement en vigueur apparaît satisfaisant à bien des égards, notamment parce qu'il garantit que les recettes sont suffisantes et parce que la répartition de la charge financière entre Etats membres semble relativement équitable. Il permettrait également une adaptation à des changements de taille du budget : si le critère de suffisance devait être le choix essentiel de mode de financement, le système actuel pourrait être conservé en l'état. Toutefois, on lui reproche souvent de ne pas respecter les principes d'autonomie budgétaire de l'UE, de visibilité et d'imputabilité.

Pour ces raisons, notre étude plaide pour une « communautarisation » du volet recettes du budget européen et pour une réduction du rôle que jouent les soldes nets nationaux dans la détermination des recettes, tout en reconnaissant que cette réduction se heurtera à des difficultés politiques. Nous proposons donc une démarche consistant à établir d'abord un ensemble de préférences sur les principales caractéristiques du mode de financement, puis à concevoir un système qui correspond le mieux à cet ensemble de préférences. Dès lors, la dimension normative apparaît cruciale et doit faire l'objet d'une décision préalable.

Sur cette base, le choix entre les différents instruments de financement, entre les diverses modalités de correction des déséquilibres ou de péréquation devient un problème de second ordre : la manière usuelle de considérer ces questions est, de ce fait, inversée. Au lieu d'évaluer la performance de la TVA, de l'IS, d'un mécanisme de correction généralisée ou de tout autre forme de rabais au regard d'une batterie de critères, la présente étude conclut que c'est la pondération accordée à chacun de ces critères qui doit déterminer les options qui seront retenues. Partant de ce postulat, notre préférence va aux instruments de financement qui ont un lien direct avec les objectifs communautaires ou avec les politiques communes, ceux qui engendrent donc un « double dividende » et ont une visibilité suffisante pour les citoyens européens. Dans le même esprit, nous concluons qu'un budget européen bien conçu ne devrait pas nécessiter le moindre mécanisme de correction ; dès lors, toute prorogation de ce type de mécanisme ne peut résulter que d'une mauvaise reconfiguration du volet dépenses et doit être considérée comme n'étant

qu'une solution de second rang. Dans le même temps, nous plaillons pour l'introduction d'un dispositif de péréquation intégré au volet recettes : les contributions nationales devraient être différenciées, en fonction de la capacité contributive des Etats membres, même si, dans ce domaine aussi, la modalité précise de cette péréquation est une question de second ordre.

Au regard de ces objectifs généraux, la démarche proposée ici consiste à faire évoluer, par étapes, le système de financement du budget vers un dispositif nouveau, et d'introduire de nouvelles ressources propres dans le but de faire tomber la part des contributions nationales à 50%, ou même moins. Simultanément, il serait mis fin aux mécanismes de correction et un degré limité de péréquation serait introduit dans la détermination des recettes. D'un point de vue purement technique, aucune de ces modifications ne serait particulièrement difficile à mettre en œuvre.

Pour ce qui est de la nouvelle ressource propre, nous proposons de commencer – idéalement en 2013, au début de la prochaine programmation à moyen terme – par un prélèvement sur le transport aérien de passagers, qui pourrait être fixé à un niveau voisin de celui que le Royaume-Uni devrait introduire prochainement. Ajouté aux ressources propres traditionnelles, ceci permettrait d'atteindre environ 30% des recettes provenant de ressources propres communautaires. Le travail préparatoire réalisé par le Trésor britannique a déjà analysé la plupart des aspects pratiques d'un tel prélèvement et souligné que l'adoption d'un tel prélèvement par un seul pays risquerait d'inciter les passagers, notamment pour les correspondances, à choisir des aéroports non soumis au prélèvement. Si le prélèvement était en vigueur dans toute l'Union, une telle concurrence fiscale serait de moindre importance, et il n'est pas inconcevable de persuader les quelques aéroports concurrents potentiels – en premier lieu l'aéroport de Zurich – de mettre en œuvre un prélèvement similaire.

Une autre ressource propre communautaire pourrait provenir des recettes de la vente aux enchères des permis d'émission ou d'une taxe carbone européenne, notamment sur les carburants. Si cette deuxième ressource devait s'ajouter à la première, cela permettrait d'atteindre un pourcentage d'environ 50% des recettes provenant de ressources propres communautaires. Et dans l'éventualité où une décision politique viserait à dépasser ce pourcentage, ces ressources auraient le potentiel de rendement suffisant.

Si un budget européen plus ambitieux, nécessitant des ressources financières supérieures au plafond actuel de 1,24% du RNB, devait être mis en œuvre, et s'il devait être financé principalement par des ressources propres communautaires, il faudrait recourir à d'autres instruments. A condition qu'une harmonisation adéquate soit décidée – ce qui pourrait se révéler malaisé --, l'affectation de l'intégralité et d'une fraction de l'IS au niveau européen pourrait être envisagée. Un tel choix serait en cohérence avec le bon fonctionnement du marché unique, dans la mesure où cela permettrait de réduire les distorsions résultant de l'optimisation fiscale des entreprises multinationales, qui ont tendance à déclarer leurs bénéfices imposables dans les pays où les taux de l'IS sont bas, et non dans ceux où ces profits sont réalisés.

Bien que la meilleure solution nous semble être de mettre fin, progressivement, à tout dispositif de correction des soldes nationaux, l'approche que nous proposons pour le cas où ils seraient maintenus, pour des raisons politiques, consiste à calculer d'abord un solde-cible pour chaque Etat membre. La séquence de décisions serait alors la suivante : en premier lieu, prendre les décisions sur les dépenses, puis régler les instruments de financement de manière à obtenir le montant de recettes approprié. Dans le calcul des soldes nets, certaines catégories de dépenses devraient être exclues : les dépenses d'administration de l'Union, bien sûr, mais aussi toutes celles qui correspondent à des biens publics purs. Conceptuellement, la définition de tels biens publics est claire, mais en pratique, elle devra faire l'objet de négociations.

Partant du présupposé qu'une modification des traités abandonnant l'obligation d'équilibre budgétaire est peu probable, il sera toujours nécessaire de disposer d'une ressource résiduelle. Tant que seront maintenues les contributions nationales sur la base actuelle du RNB, ce mécanisme est assuré. Cependant, une solution plus radicale pourrait consister à mobiliser les revenus monétaires de la Banque centrale, bien que cette hypothèse nécessite une modification des traités, qui risque de ne pas pouvoir être faite rapidement.

Si l'on devait décider d'introduire un certain degré de péréquation dans le système de recettes, la solution recommandée par cette étude serait de recourir à une certaine progressivité dans la détermination des contributions nationales. Ceci pourrait, dans un premier temps, être obtenu en définissant des tranches de RNB, soumises à des taux de contribution différents et croissants ; cependant, en raison des effets de seuils, il pourrait être préférable de recourir à une formule d'augmentation plus continue.

Dans les termes des scénarios présentés ci-dessus, la séquence que nous préconisons consisterait à mettre en œuvre successivement les deux scénarios de ressources propres communautaires, en deux étapes. Notre conclusion est qu'aucun des deux scénarios de « réforme minimale » ne serait suffisant, tandis que le scénario de « taxation avec représentation » apparaît comme ne pouvant être envisagé sans un progrès radical dans l'approfondissement de l'intégration européenne.

Zusammenfassung

Als Teil des Kompromisses zum Mehrjährigen Finanzrahmen für die Periode 2007 – 2013 wurde vom Europäischen Rat im Jahr 2005 eine Überprüfung der Einnahmen- und Ausgabenseite des EU Haushalts beschlossen, bei der es keine Tabus geben sollte. Diese Studie dient dem Zweck, die Debatte hinsichtlich der Einnahmeseite zu begleiten. Zwei Fragen stehen im Zentrum der Untersuchung: Wie gut funktioniert das derzeitige System zur und wie kann es verbessert werden?

Die Einnahmeseite des EU-Haushalts setzt sich aus verschiedenen Elementen zusammen, die einzeln zu bewerten sind, um zu überzeugenden Antworten auf die aufgeworfenen Fragen zu gelangen. Diese beinhalten mit den sogenannten "Eigenmitteln" (EM) die Instrumente zur Ressourcengenerierung und die Regeln nach denen diese bestimmt werden, die Bestimmungen nach denen Nettobeiträge, die als übermäßig bewertet, korrigiert werden, und die Verfahren, die sicherstellen, dass die Einnahmen die Ausgaben der Gemeinschaft vollständig decken, wie in Artikel 268 EGV festgelegt.

Diese verschiedenen Bestandteile sind notwendigerweise Teil aller Maßnahmen zur Veränderung der Einnahmeseite des EU Haushalts gewesen, die seit 1970, als die Gemeinschaft zum ersten Mal Eigenmittel erhob, vorgenommen wurden. Für die Bewertung des bestehenden Systems wie für den Blick nach vorn folgt hieraus, dass das System als Ganzes zu bewerten ist und es nicht etwa ausreicht, isoliert Vorschläge für neue Eigenmittelquellen oder Veränderungen von Korrekturmechanismen zu betrachten.

Artikel 269 EGV verlangt, dass der Haushalt vollständig aus Eigenmitteln zu finanzieren ist. Im bestehenden System werden diese Eigenmittel aus vier Quellen generiert: Agrarabschöpfungen und Zolleinnahmen als sogenannte "Traditionelle Eigenmittel" (TEM), Einnahmen aus der Anwendung eines für alle Mitgliedstaaten gleichen Abzugsatzes auf eine einheitlich bestimmte Mehrwertsteuer-Bemessungsgrundlage und eines Transfers basierend auf der Höhe des Bruttonationaleinkommens (BNE) eines Mitgliedsstaates. Hierbei deckt die vierte Eigenmittelquelle das Residuum aus Ausgaben und Einnahmen durch die anderen Eigenmittelarten und stellt somit einen ausgeglichenen Haushalt sicher. Folglich ist eine hinreichende Finanzierung des EU Haushalts gesichert, was vor dem Hintergrund teilweise erbitterter Debatten vor der Einführung des Eigenmittelsystems, eine bedeutende Errungenschaft darstellt.

Über die Jahre hat die BNE-Eigenmittelquelle die MwSt.-Eigenmittel und die TEM zunehmend in den Hintergrund treten gelassen, so dass sie heute die Hauptfinanzierungsquelle des EU Haushalts darstellt. Auch wenn die BNE Eigenmittel rechtlich betrachtet Eigenmittel der Gemeinschaft sind, so sind sie aus ökonomischer Perspektive als inter-gouvernementale Transfers und nicht als Einnahmequelle anzusehen, die tatsächlich der EU Ebene "gehören". Als solche sind sie Gegenstand von Kritik, insbesondere von Seiten des Europäischen Parlaments. Im Gegensatz hierzu stehen die Mitgliedsstaaten der BNE-Eigenmittelquelle aufgrund ihrer Integrationsfähigkeit in nationale Haushalte und des geringen administrativen Aufwands positiv gegenüber und stufen diese Eigenmittelquelle überwiegend als fair ein.

Dennoch wird der gestiegene BNE-Eigenmittelanteil für den gestiegenen Anspruch von Mitgliedsstaaten nach Korrekturmechanismen verantwortlich gemacht, deren Ausmaß kontinuierlich zugenommen hat und in den Augen vieler Staaten die Gerechtigkeit des Systems untergräbt.

Korrekturmechanismen haben sich stark vermehrt, seit der Europäische Rat in Fontainebleau 1984 diese grundsätzlich möglich machte und für Großbritannien einen konkreten Beitragsrabatt implementierte. Die ungleiche Verteilung von Ausgaben zwischen Mitgliedsstaaten (insbes. im Bereich der Gemeinsamen Agrarpolitik (GAP)) begründet hierbei im Allgemeinen die politischen Forderungen nach Korrekturen, insbesondere dann, wenn eine derartige ungleiche Verteilung zwischen Staaten vergleichbaren Wohlstandsniveaus vorliegt. Darüber hinaus werden vereinzelt auch Ungleichgewichte bei den Zahlungen in den Haushalt als Begründung für Korrekturen herangezogen.

Wenngleich die Grundüberlegung hinter allen Korrekturmechanismen die Reduzierung der Nettoszahlungen ist, unterscheiden sich die Mechanismen in ihrer Ausgestaltung. Der Britenrabatt ist hierbei direkt an die Nettoszahlungen Großbritanniens gebunden und entwickelt sich daher dynamisch mit der britischen Nettoposition. Die für die laufende Finanzperiode eingeführten temporären Reduktionen in den Abzufürten für die MwSt.- und BNE-Eigenmittel stellen hingegen fixe Korrekturen auf die Zahlungen einzelner Mitgliedsstaaten dar, die sich nicht automatisch veränderten Gegebenheiten anpassen.

Mit der erfolgreichen Sicherstellung einer hinreichenden Finanzierung des EU Haushalts erfüllt das bestehende System ein Ziel, das von Mitgliedsstaaten und Finanzbehörden hoch bewertet wird. Dieses System könnte vereinfacht werden durch die Abschaffung der MwSt.-Eigenmittel, die nicht mehr die tatsächlichen MwSt.-Einnahmen in den Mitgliedsstaaten reflektieren und deren Bedeutung ohnehin schon stark zurückgegangen ist. Die fehlenden Mittel könnten durch BNE-Eigenmittel erbracht werden, so dass diese zusammen mit den TEM die einzigen Eigenmittelquellen darstellen würden.

Durch den residualen Charakter der BNE-Eigenmittel zusammen mit der Eigenmittelobergrenze und dem Mehrjährigen Finanzrahmen ist es schwierig ein System zu entwickeln, das die Ziele in Bezug auf Hinlänglichkeit und Stabilität effektiver sicherstellen und gleichzeitig einen ausgeglichenen Haushalt garantieren würde. Gleichwohl ist es möglich, alternative residuale Eigenmittelquellen zu entwickeln, die imstande sind, ein vergleichbares Ergebnis zu liefern.

Um Änderungen am bestehenden System zu rechtfertigen bedarf es dennoch des Nachweises, dass Kriterien jenseits von Hinlänglichkeit größeres Gewicht gegeben werden sollte. Überlegungen hierzu fußen auf der aus der Finanzwissenschaft abzuleitenden Forderung der Einheit von steuererhebenden und mittelverwendenden Entität, sowie politischen Überlegungen, die Verantwortlichkeit und Transparenz bei EU-Ausgaben zu erhöhen. Das Verbinden von Eigenmittelerhebung und EU-Politiken, wie der Klimaschutzpolitik oder der Verbesserung des Funktionierens des Binnenmarktes und der EWU sind ebenfalls zu beachten. Wenn bei der Reform der Einnahmeseite des Haushalts diesen anderen - nicht streng budgetären Kriterien – mehr Gewicht gegeben wird, kann für die Einführung eines neuen Finanzierungssystems argumentiert werden, welches neue Eigenmittelquellen (steuerbasiert oder nicht) direkt der EU-Ebene zuweist und in welchem andere Ansätze für Korrekturen und weitere Facetten des derzeitigen Systems angewendet werden können. Diese Studie empfiehlt einen Ansatz aus drei Schritten, um über derartige Reformen zu entscheiden:

- Zuerst sollten strategische Entscheidungen über die grundlegenden Konturen eines neuen Systems getroffen werden. Diese sollten Antworten auf die Fragen beinhalten, zu welchen Anteilen der Haushalt aus genuinen Eigenmitteln und zu welchen aus nationalen Beiträgen finanziert werden soll, ob es Korrekturen für die Kompensation von ausgabeseitigen Ungleichgewichten geben und ob es eine explizite Egalisierung auf der Einnahmeseite geben soll.
- Als zweites sollten normative Kriterien über die Ziele von Eigenmittelquellen und/oder Korrektur-/Ausgleichsmechanismen explizit gemacht werden. Dieses sollte die erstrangige Entscheidung sein, vor der Festlegung von Wahlmöglichkeiten und Forderungen nach einer weitreichenden Debatte über die Frage, welches Gewicht verschiedenen Kriterien zu geben ist.
- Drittens und nachfolgend sollten die gewichteten Kriterien dazu genutzt werden, diejenigen Ressourcen und Mechanismen zu wählen, welche die Kriterien aus Schritt zwei am besten erfüllen.

Hierbei ist wichtig zu betonen, dass dieser Ansatz bedeutet, dass es keine ideale Lösung geben kann. Vielmehr können die folgenden Beispiele als Illustration dienen:

- Unterschiedliche Formen einer Abgabe auf Kohlendioxidemissionen (inklusive der Einnahmen aus der Versteigerung von Emissionszertifikaten) wären in einfacher Weise mit Klimaschutzpolitiken der EU zu verbinden.
- Abgesehen von den Schwierigkeiten, die mit einer Veränderung der Gründungsverträge verbunden wären, kann die Heranziehung der monetären Einkünfte der EZB als direkte Folge von Gemeinschaftspolitiken und eindeutigen EU-Kompetenzen gerechtfertigt werden.
- Im Gegensatz zu einer angepassten, könnte eine genuine und auf Quittungen separat ausgewiesene MwSt.-Eigenmittelquelle zur Verbesserung der Sichtbarkeit der EU-Finanzierung für den Bürger beitragen. Ähnliches würde durch die Erhebung einer Abflugsteuer von innereuropäischen Flughäfen in Übereinstimmung mit Klimaschutzpolitiken erreicht.

Zu beachten bleibt, dass jedwede potentielle oder derzeit existierende Eigenmittelquelle einige Kriterien besser, andere schlechter erfüllt. Ziel unserer Analyse ist, diese Argumente aufzuzeigen, um das notwendigerweise politische Urteil zu erleichtern, das jeder Reform des EU-Finanzierungssystems vorausgehen muss.

Eine Reform muss darüber hinaus das bestehende System mit all seinen Bestandteilen als Startpunkt in Betracht ziehen, um eine Weiterentwicklung zu einem effektiveren System zu gewährleisten. Tatsächlich wird die Qualität des Finanzierungssystems letztlich von dem Zusammenspiel seiner grundlegenden Elemente und dessen Auswirkung abhängen, die dieses auf die Lösung von Problemen, wie der “juste retour” Debatte, hat.

Um diese Ansätze einzufassen hat diese Studie fünf unterschiedliche Szenarien entwickelt, die den möglichen Zeitrahmen ihrer Implementierung, sowie unterschiedliche Reformbereitschaften berücksichtigen. Ein erster Zeitpunkt für Veränderungen ist das Jahr 2013, das Ende des derzeitigen Mehrjährigen Finanzrahmens (MFR), ein zweiter das Ende des folgenden MFR, das Jahr 2020 oder früher, falls die siebenjährige Periode verkürzt wird, wie es der Lissabonner-Vertrag erlaubt.

In diesem Zusammenhang bezeichnet “Minimum reform” ein Szenario, in welchem nur marginale Veränderungen am status quo vorgenommen werden. “Community own resources” geht von substantielleren Veränderungen des Systems hin zu neuen Eigenmittelquellen aus, wobei angenommen wird, dass 2020 größere Veränderungen vorgenommen werden als 2013. In den ersten vier Szenarien bleiben der intergouvernementale Charakter des EU-Finanzsystems und damit auch die BNE-Eigenmittelquelle erhalten. Ferner können die meisten, wenn nicht gar alle vorgeschlagenen Veränderungen in der Finanzierungsstruktur ohne Vertragsveränderungen implementiert werden. Im Gegensatz hierzu basiert das fünfte Szenario – “taxation with representation” – auf einer zukünftigen (undatierten) Umgestaltung der EU hin zu einem fiskalischen Mehrebenensystem, wie es in allen entwickelten Föderalstaaten zu finden ist und schließt folglich eine intergouvernementale Komponente des Systems aus.

Politische Sensitivitäten und Pfadabhängigkeiten beeinflussen den Handlungsspielraum in dessen das Eigenmittelsystem reformiert werden kann und es ist offenkundig, dass eine Reform der Einnahmeseite nicht ohne Bezug auf die Ausgabenseite stattfinden kann. Entsprechend schlägt diese Studie einen schrittweisen, aber in seinen Zielen ambitionierten Ansatz vor. Unter Berücksichtigung hinreichender Übergangszeiträume sollte dieser Ansatz folgendes zum Ziel haben:

- Die nationalen Beiträge durch die Abschaffung der MwSt.-Eigenmittel zu vereinfachen und sie durch BNE-Eigenmittel zu ersetzen.
- Den EU-Haushalt bis zu 50% durch neue Eigenmittel zu finanzieren, welche EU-Politiken reflektieren. Hierbei liegt die Präferenz auf einem Zusammenhang mit umweltpolitischen Zielen. Dieses legt, wenn eine geringere Einnahmeseite ausreicht, eine Gebühr auf innereuropäische Flüge nahe oder favorisiert die Zuordnung der Einnahmen durch die Versteigerung von Emissionszertifikaten (oder einer anderen Form der Kohlendioxidabgabe) zur EU-Ebene, wenn angestrebt wird, mehr Mittel durch eine neue Eigenmittelquelle zu generieren.
- Vorausgesetzt, dass verschiedene Probleme der Bestimmung einer einheitlichen Steuerbasis gelöst werden können, sollte langfristig eine Veränderung hin zu Einnahmen aus einer Körperschaftsteuer in Betracht gezogen werden.
- Sollte die Heranziehung der Körperschaftsteuer politisch nicht durchsetzbar sein, sollte als Alternative die Mobilisierung der Zentralbankeinnahmen in der EWU als Eigenmittelquelle geprüft werden.
- Weiterentwicklung von vereinzelt Korrekturmechanismen hin zu einem formelbasierten Ausgleichsmechanismus auf der Einnahmeseite. Dieses sollte in Phasen eingeführt werden und ist abhängig von möglichen Reformen der Ausgabenseite.
 - Zur Objektivierung von Korrekturen, um ad-hoc Maßnahmen zu verhindern und um die Zahlungsfähigkeit zum zentralen Kriterium zur Bewertung der Beiträge eines Mitgliedsstaates zu machen, sollte ein allgemeiner Mechanismus eingeführt werden.
 - Es existieren verschiedene zuverlässige Formeln, die hierfür herangezogen werden könnten. Zu diesem Zeitpunkt stellt sich allerdings zunächst die Frage nach dem grundsätzlichen politischen Willen und nicht nach der präzisen Ausgestaltung eines derartigen Mechanismus’.

- Es sollte eine informierte und umfangreiche öffentliche Debatte über die Ausgewogenheit des Verhältnisses von Investitionen in öffentliche Güter und der rein distributiven Mechanismen – inklusive derer auf der Einnahmeseite – initiiert werden.

Nicht-technische Zusammenfassung

Ein wichtiger Bestandteil der Schlussfolgerungen des Europäischen Rates vom Dezember 2005, die eine Einigung über den Mehrjährigen Finanzrahmen für die Jahre 2007-2013 enthielten, war eine Übereinkunft eine Überprüfung des europäischen Haushalts in den Jahren 2008/2009 vorzunehmen. Man kam überein, dass diese Überprüfung umfassend und ohne Tabus zu erfolgen sei und sowohl die Einnahme-, wie die Ausgabenseite einschließen sollte. Die Europäische Kommission warf in einem Konsultationspapier im Jahr 2007 eine Reihe von Fragen und Diskussionspunkten auf. Die Einnahmeseite betreffend stellte das Papier folgende Fragen zur Zukunft der Finanzierung des EU-Haushalts:

Welche Grundsätze sollten der Einnahmeseite des Haushalts zugrunde liegen und wie sollten sich diese im System der Eigenmittel niederschlagen?

Was spricht noch für die Aufrechterhaltung der Korrektur- bzw. Ausgleichsmechanismen?

Eine dritte, stärker politische Frage, spiegelt Bedenken hinsichtlich der Legitimität und Sichtbarkeit des derzeitigen Finanzierungssystems wider, die insbesondere von Seiten des Europäischen Parlaments aufgeworfen werden:

Welcher Bezug sollte zwischen EU-Bürgern, politischen Prioritäten und der Finanzierung des EU-Haushalts bestehen?

Hintergrund und Gegenstand der Studie

Die Studie beschäftigt sich mit dem zukünftigen Finanzierungssystem des EU-Haushalts, einschließlich möglicher Korrekturmechanismen und zielt darauf ab, in die Haushaltsüberprüfung einzufließen. Die Einnahmeseite des EU-Haushalts setzt sich aus verschiedenen Elementen zusammen, die allesamt zu begutachten sind, um zu einer Bewertung des Funktionierens des derzeitigen Eigenmittelsystems und der Frage zu gelangen, ob dieses reformiert werden sollte. Diese Elemente beinhalten mit den sogenannten "Eigenmitteln" (EM) die Instrumente zur Ressourcengenerierung und die Regeln, nach denen diese bestimmt werden, die Bestimmungen nach denen Nettobeiträge, die als übermäßig bewertet, korrigiert werden und die Verfahren, die sicherstellen, dass die Einnahmen die Ausgaben der Gemeinschaft vollständig decken, wie in Artikel 268 EGV festgeschrieben. Ähnliche fiskalpolitische Regeln, die auf eine Kontrolle der Ausgaben untergeordneter Regierungsebenen zielen, finden sich vielfach in anderen fiskalischen Mehrebenensystemen.

Die Arbeit, die dieser Studie zugrunde liegt beinhaltet eine umfassende Auswertung der Literatur und relevanter vorheriger Arbeiten, empirischer Forschung und Politikanalyse. Die empirische Arbeit umfasst eine Kombination aus qualitativer und quantitativer Analyse, umfassende Konsultationen mit Praktikern und eine Umfrage unter Repräsentanten der Mitgliedsstaaten (überwiegend, aber nicht ausschließlich aus Finanzministerien). Diese Vorarbeiten wurde verwendet, um zum einen das Funktionieren des derzeitigen Systems zu bewerten und zum anderen um den Versuch zu unternehmen, eine systematische Basis für die Analyse von Reformoptionen zu konzipieren.

Finanzierung: Das bestehende System

Einnahmen zur Finanzierung des EU-Haushalts werden aus vier Quellen generiert: Agrarabschöpfungen und Zolleinnahmen, bezeichnet als sogenannte "Traditionelle Eigenmittel" (TEM), Einnahmen aus der Anwendung eines für alle Mitgliedstaaten gleichen Abrufsatzes auf eine einheitlich bestimmte Mehrwertsteuer-Bemessungsgrundlage und eines Transfers basierend auf der Höhe des Bruttonationaleinkommens (BNE) eines Mitgliedsstaates. Über die Jahre hat die BNE-Eigenmittelquelle die MwSt.-Eigenmittel und die TEM immer weiter in den Hintergrund treten gelassen, so dass sie heute die Hauptfinanzierungsquelle des EU Haushalts darstellt. Auch wenn die BNE Eigenmittel rechtlich betrachtet Eigenmittel der Gemeinschaft sind, so sind sie aus ökonomischer Perspektive als intergouvernementale Transfers und nicht als Einnahmequelle, die tatsächlich der EU Ebene "gehört", anzusehen. Als solche ist sie Gegenstand von Kritik, insbesondere von Seiten des Europäischen Parlaments. Im Gegensatz hierzu stehen die Mitgliedsstaaten der BNE-Eigenmittelquelle aufgrund ihrer

Integrationsfähigkeit in nationale Haushalte und des geringen administrativen Aufwands positiv gegenüber und stufen diese Eigenmittelquelle überwiegend als fair ein. Die Inanspruchnahme der BNE-Eigenmittelquelle schwankt mit der Höhe der Mittel, die benötigt werden, um die Gemeinschaftsausgaben zu finanzieren. Durch diesen residualen Charakter stellen die BNE-Eigenmittel das Instrument zur Sicherstellung eines ausgeglichenen Haushalts dar.

Verschiedene "Korrekturmaßnahmen" auf der Einnahmeseite werden dazu genutzt, die Nettozahlungen einzelner Mitgliedsstaaten zu verringern. Diese umfassen zunächst den sogenannten Britenrabatt, der 1984 eingeführt wurde und seitdem unbeschadet von einigen Veränderungen fortbesteht; einen Rabatt auf die Finanzierung des Britenrabatts für Deutschland und folgend für Österreich, die Niederlande und Schweden; und eine Reihe weiterer ad hoc-Mechanismen zur Reduzierung der Last für dieselben vier Länder. Ein weiterer bedeutender Baustein des Systems ist die Eigenmittelobergrenze von derzeit 1,24% des Bruttonationaleinkommens der EU für Zahlungen aus dem EU-Haushalt.

Die Grundlage eines Eigenmittelsystems

Die Aufgabe des Eigenmittelsystems besteht primär – und selbstverständlich – darin, ausreichende Einnahmen für die Finanzierung der Ausgaben der Gemeinschaft zur Verfügung zu stellen. Darüber hinaus muss es aber auch zu weiteren Zielen beitragen und bestimmte Kriterien eines Einnahmesystems erfüllen. Hiervon sind einige direkt einsichtig, während andere deutlich umstrittener sind:

- Erreichen einer Ausgewogenheit von Beiträgen der Mitgliedsstaaten, die politisch akzeptabel ist.
- Erhebung von Einnahmen in effizienter Weise und Berücksichtigung verschiedener Facetten ökonomischer Effizienz in der Art und Weise, wie Mittel generiert werden.
- Ausstattung der EU mit finanzieller Autonomie.
- Beitrag zur effizienten Verfolgung der Ziele der EU Politiken.
- Berücksichtigung einer Vielzahl von politischen Geboten, wie der Herstellung eines Bezugs der Bürgern zu und der Sichtbarkeit von EU Finanzen.
- Übereinstimmung mit den Verträgen der Gemeinschaft.

Diese unterschiedlichen Auflagen und Erwartungen sind wechselseitig nicht konsistent, was bedeutet, dass auf der Einnahmeseite des EU-Haushalts eine Balance zwischen potentiell inkonsistenten Anforderungen gefunden werden muss. Infolge dessen ist zu erwarten, dass es unterschiedliche Auffassungen über die Ausgestaltung eines optimalen Systems geben wird und als logische Konsequenz folgen muss, dass es keine alleingültige "ideale" Lösung in der Frage der EU-Finanzierung gibt. Eine Bewertung des Funktionierens des bestehenden Systems and potentieller Reformen muss daher deskriptive und normative Elemente zusammenführen, um zu einer überzeugenden Analyse zu gelangen.

Obwohl eine umfangreiche akademische und politische Literatur zu den Themen Steuerpolitik, zwischenstaatlichen Transfers und Neuer Politischer Ökonomie (Public Choice) besteht, kommen wir zu dem Ergebnis, dass diese nur in begrenztem Umfang bei der Beantwortung der Frage, wie die EU finanziert werden sollte, beitragen kann. Die prinzipielle Schwierigkeit besteht hier darin, dass in anderen Mehrebenensystemen die höchste Regierungsebene typischerweise für die Erhebung eines beträchtlichen Anteils der Steuern verantwortlich ist und, ungleich der EU, eine substantielle Rolle bei Vermittlung zwischen niedrigeren Entitäten in Finanzfragen spielt. Dieses ist offenkundig keine zutreffende Beschreibung weder der heutigen, noch einer zukünftigen Funktionsweise der EU unter jedwedem plausiblen Szenario. Gleichmaßen ist die EU mehr als eine internationale Organisation, wie beispielsweise der IWF oder die Vereinten Nationen, weshalb ein Ergebnis dieser Studie ist, dass eine Untersuchung der Finanzierungssysteme dieser Organisationen keine Erkenntnis für die Frage nach der EU-Finanzierung liefern kann. Viel mehr verlangt der einzigartige (oft als *sui generis* bezeichnete) Charakter der EU einen einzigartigen Ansatz.

Bewertung des bestehenden Systems

Das bestehende Eigenmittelsystem verfügt über eine Reihe positiver Eigenschaften. Die vielleicht wichtigste ist, dass es mithilfe einer Einnahmequelle (BNE-Eigenmittel), die sich flexibel den Finanzierungsbedürfnissen anpasst, eine hinreichende und stabile Finanzierung des EU-Haushalts sicherstellt. Diese Eigenschaft ist nicht nur deswegen wichtig, weil sie sicherstellt, dass die EU keine Probleme bei der Erhebung der benötigten Mittel zum Ausgleich von Einnahmen und Ausgaben hat, sondern auch, weil sie Komplikationen umgeht, die entstehen könnten, wenn sie sich auf eine Einnahmequelle verlassen würde, deren Einnahmen in einem Jahr hinter den Prognosen zurückblieben. Die Flexibilität des Systems bedeutet auch, dass es (innerhalb der Eigenmittelobergrenze) leicht auf Veränderungen bei der Höhe der Ausgaben reagieren kann.

Insgesamt legen die Umfrageauswertungen und Konsultationen mit Repräsentanten aus den Mitgliedsstaaten nahe, dass das bestehende Eigenmittelsystem als zufriedenstellend angesehen wird, wobei die MwSt.-Eigenmittel als unnötige administrative Belastung angesehen werden. Es wird zumindest im Hinblick auf die Bruttozahlungen zudem als einigermaßen fair eingestuft.

Dennoch besteht die weitreichende Sorge, dass die verschiedenen Korrekturmechanismen die Fairness des Systems unterminieren. Kritik wird zudem an der Komplexität und Undurchsichtigkeit des Systems geübt, allen voran an den Korrekturmechanismen, insbesondere seit deren Zunahme. Es wird darüber hinaus angeführt, dass das bestehende System die Neigung der Mitgliedsstaaten – hier insbesondere der Nettozahler – begünstigt, alleinig ihre jeweiligen Nettosalde zu betrachten, die jedoch bestenfalls nur einen Teil dessen wiedergeben, was als *juste retour* des EU-Haushalts angesehen werden kann, ganz zu schweigen von den Vorteilen aus der Mitgliedschaft in der Gemeinschaft.

Eine separate Form von Einwänden gegen das bestehende Eigenmittelsystem hat eine stärker politische Ausrichtung. Unter dem Eindruck, die Mitgliedsstaaten seien die "Steuerzahler" der EU entsteht der Eindruck, dass die Bürger keine direkten Einflussmöglichkeiten auf die Finanzierung der EU haben und in dieser Hinsicht keine Präferenzen äußern können. Insbesondere das Europäische Parlament beklagt die Abtrennung der EU-Haushaltsfinanzierung vom normalen politischen Prozess und hat wiederholt eine fehlende Sichtbarkeit der Finanzierungsquellen der Gemeinschaft kritisiert. In diesem Zusammenhang steht auch das Argument, die Konzentration auf Nettosalde habe die Solidarität als haushaltspolitisches Ziel unterminiert. Dieser Umstand mag auch Investitionen in europäische öffentliche Güter benachteiligt haben, da Regierungen primär um die Verbesserung ihrer Nettopositionen besorgt sind, als darum, ausreichende Ressourcen für die Finanzierung kollektiver Güter bereitzustellen.

Der Nettosaldeansatz neigt dazu, den EU-Haushalt als Nullsummenspiel zu betrachten, in der Weise, dass ein Mittelzufluss in einen Mitgliedsstaat dem Mittelabfluss aus einem anderen Mitgliedsstaat entsprechen muss. Im Gegensatz hierzu wäre ein Ansatz, der den Charakter öffentlicher Güter in den Vordergrund stellt ein Positivsummenspiel, auch dann, wenn die Belastungen ungleich verteilt wären. Darüber hinaus bestehen Rückkoppelungen, insbesondere als Ergebnis der Kohäsionspolitik, die zu berücksichtigen sind: Ein beachtlicher, wenn auch nicht genau quantifizierbarer Teil der Mittel, die Nettoempfängern zukommen, fließt indirekt über Aufträge zu Bau- und Ausrüstungsinvestitionen zu den Nettozahlern zurück. Zudem werden durch steigende Nachfrage in Empfängerländern makroökonomische Multiplikatoreffekte ausgelöst, die auch den Geberländern zugute kommen. Eine präzise Abschätzung dieser Effekte ist schon deswegen schwierig, da diese eine Konstruktion eines überzeugenden kontrafaktischen Szenarios voraussetzte, unter dem es keine Transfers gäbe. Es liegt darüber hinaus in der Natur der Sache, dass letztlich die Empfängerländer am meisten von aus den durch den EU-Haushalt finanzierten öffentlichen Gütern profitieren. Dennoch ist die Schlussfolgerung für das Eigenmittelsystem zu ziehen, dass eine differenziertere Betrachtung von Gewinnen nötig ist.

Reform des Systems

Die Notwendigkeit für eine Reform des Systems ist abhängig von den normativen Prioritäten der Entscheidungsträger im Hinblick auf die Frage, was das System erreichen soll. Besteht die Erwägung einzig und allein darin, den Haushalt adäquat und verlässlich zu finanzieren, wäre es schwer, sich gegen die BNE-Eigenmittel auszusprechen, auch wenn Modifikationen ihrer genauen Anwendung in Betracht gezogen werden könnten, um die Lastenaufteilung zu verändern. Wenn allerdings die Verbindung von

Bürgern zu EU-Politiken oder das Ziel, Einnahmen stärker an Investitionen in europäische öffentliche Güter zu verknüpfen, als übergeordnete Prinzipien in den Vordergrund gestellt werden, wird die Forderung nach "genuinen" EU-Eigenmitteln im Gegensatz zu nationalen Beiträgen deutlich zwingender. Daraus folgt, dass zunächst die Frage zu beantworten ist, welches Gewicht den einzelnen Kriterien gegeben werden soll.

Hierbei nimmt diese Studie die Haltung ein, dass sich der duale Charakter der EU als Union einerseits der Mitgliedsstaaten, andererseits der Bürger, stärker im Finanzierungsmix widerspiegeln und daher der Gemeinschaftsanteil der Einnahmen vom derzeit niedrigen Stand der TEM, deutlich erhöht werden sollte. Ein Reformpaket muss indessen auch die weiteren Facetten des Eigenmittelsystems in Betracht ziehen und darf nicht auf die einfache Substitution eines Teils (oder aller) nationalen Beiträge durch eine neue Eigenmittelquelle reduziert werden.

In der Betrachtung der einzelnen Komponenten argumentiert diese Studie, dass die Identifikation von Ressourcen zur Finanzierung des Haushalts mithilfe eines hierarchischen Entscheidungsprozesses geschehen sollte. Als erster Schritt ist hierbei über die Anteile zu entscheiden, zu denen Mittel durch nationale Beiträge, respektive durch Gemeinschaftsressourcen aufzubringen sind. Die Untersuchung sieht hierbei keinen Grund, die bestehende Zuordnung der TEM zum EU-Haushalt zu ändern, wenngleich anzunehmen ist, dass die Mittel aus dieser Quelle weiter rückläufig sein werden. Zur Illustration wird angenommen, dass sich ihr Anteil bei 10% eines EU-Haushalts, der 1% des EU-BNE entspricht, stabilisiert. Zunächst ist daher zu entscheiden, in welchem Umfang neue Eigenmittelquellen für die verbleibenden 90% herangezogen werden sollen. Sollten Reformen auf der Ausgabenseite einen größeren (oder sogar kleineren) Anteil der EU-Ausgaben am BNE zur Folge haben, müssten die Parameter entsprechend angepasst werden.

Der Anteil der Ausgaben, der durch eine Gemeinschaftsressource zu finanzieren ist, bestimmt in der Folge, welche potentiellen Quellen in Frage kommen. Liegt das zu erbringende Aufkommen bei 0-0,35% BNE stünde eine Vielzahl von möglichen steuerlichen wie nicht-steuerlichen Instrumenten zur Verfügung. Sollen mehr als 1% BNE generiert werden, müsste eine neue Eigenmittelquelle auf einer der substantiellen Steuerbasen fußen, auf Grundlage derer Mitgliedsstaaten auch Mittel für sich generieren. Diese umfassen Konsumausgaben (vornehmlich MwSt. und Verbrauchssteuern), Einkommen, Unternehmensgewinne oder Kapitalbesteuerung. Die Steuerbasen Arbeit und Land werden hier als nicht plausible Optionen verworfen.

Bei der Betrachtung der wichtigsten Steuerbasen ist die Mehrwertsteuer voraussichtlich stabiler und gerechter in der Erhebung als Einkommens- oder Unternehmenssteuern, bei denen ein deutlich größerer Unterschied hinsichtlich des Charakters der Steuersysteme und den Steuerbasen zwischen den Mitgliedsstaaten vorherrscht. Darüberhinaus werden Einkommens- und Verbrauchssteuern (vielleicht mit der Ausnahme von Mineralölsteuern) als politisch deutlich sensibler angesehen, da sie typischerweise zu Umverteilungszwecken (Einkommenssteuer) oder zur Erreichung sozialpolitischer Ziele verwandt werden (wie etwa der Eindämmung von Alkoholkonsum). In Anbetracht der Tatsache, dass diese Faktoren, die Komplikationen, die durch die unterschiedlichen Ausgestaltungen dieser Steuern entstehen, noch verschärfen würden, schließen sich diese als Optionen zur Finanzierung des EU-Haushalts aus. Prinzipiell kann die Heranziehung von Steuern auf Kapital, insbesondere der Körperschaftssteuer, sinnvoll sein, da in einem gemeinsamen Binnenmarkt die Lokalisierung der Steuerbasis (also der Ort, an dem der Unternehmensgewinn generiert wurde) mit großen Schwierigkeiten verbunden ist und nicht mit dem Ort der Steuererklärung zusammenfallen muss. In der Tat werben einige Staaten aus diesem Grund ganz bewusst die Ansiedlung von Firmensitzen an, mit dem Ziel, so ihre Steuereinnahmen zu erhöhen.

Die Auswahl von Eigenmittelquellen

Ein Kernbefund dieser Studie ist, dass es nicht die eine „beste“ Gemeinschaftsressource als Eigenmittelquelle gibt, wenngleich es an grundsätzlich geeigneten Kandidaten hierfür nicht mangelt. Sollte eine Umstellung des Systems in diesem Sinne gewünscht sein, so ist daher die Frage nach dem konkreten Kandidaten als zweitrangig zu betrachten, die entsprechend der Präferenzen der Entscheidungsträger zu entscheiden ist und weniger auf der Grundlage rein objektiver Kriterien. In diesem Zusammenhang sind einige dieser Kriterien, vor allem in der finanzwissenschaftlichen Literatur, als bedeutend identifiziert worden. Diese umfassen Fragen der Gleichheit zwischen Bürgern, der

Verhinderung von Verzerrungen bei der Allokation von Ressourcen, sowie einer Reihe administrativer Kriterien, wie Erhebungskosten, Hinlänglichkeit, Stabilität und Verlässlichkeit der Einnahmen, Einfachheit und Verhinderung von Hinterziehung. Grundsätzlich sind diese Kriterien auf **jedes** fiskalische System anwendbar und daher in dieser Studie genutzt worden, zusammen mit einer stärkeren Betonung auf EU-spezifische Kriterien. Diese beinhalten Fairness zwischen den Mitgliedsstaaten, die Verknüpfung zu EU-Politiken und die Sichtbarkeit für die Bürger und – vielleicht stärker umstritten – die Stärkung der EU-Finanzautonomie. Darüber hinaus können Subsidiaritätsüberlegungen oder nationale Befindlichkeiten bei der Betrachtung bestimmter Steuerarten zu Vetos führen, insbesondere dann, wenn nationalstaatliche soziale oder politische Ziele mit bestimmten Einnahmequellen verbunden sind.

Vor dem Hintergrund dieser Kriterien, bietet sich für viele eine modulierte Mehrwertsteuer, bei der ein oder zwei Prozentpunkte in jedem Mitgliedsstaat der EU-Ebene überlassen werden, zunächst als Kandidat an, da Steuererhebung und Steuerbasis überwiegend vereinheitlicht sind. Dennoch ist die Harmonisierung der MwSt. zwischen den Mitgliedsstaaten noch lange nicht abgeschlossen und es bleibt die Frage, ob es in einem derartigen Fall starken Druck hin zur Anpassung der entsprechenden Erträge im Sinne der Fairness zwischen den Mitgliedsstaaten geben würde. In der Tat haben die bestehenden MwSt.-Eigenmittel eine derartige Entwicklung genommen, so dass hier die Gefahr eines „Zurück-in-die-Zukunft“ besteht, bei dem dieselben Nachteile erneut auftreten. Aus diesen Gründen ist die Mehrwertsteuer in unseren Augen eine weniger attraktive Lösung für eine neue Eigenmittelquelle als weithin angenommen.

Aufgrund der hohen Sensitivität anderer Steuerquellen, wird die Körperschaftssteuer von uns als die einzige andere durchführbare Option unter den wichtigen Kandidaten eingeschätzt. Der grundlegende Vorteil einer europäisierten Körperschaftssteuer bestünde in der Reduzierung regionaler Willkürlichkeit in der Besteuerung von Unternehmensgewinnen, die durch den Handlungsspielraum der Firmen in Bezug auf den Ort ihrer Steuererklärung entsteht. Auf der anderen Seite stellt die Körperschaftssteuer eine deutlich geringere Einnahmequelle dar (wenn auch groß genug, um den EU-Haushalt inklusive einer Sicherheitsmarge vollständig zu finanzieren). Die Höhe der Einnahmen ist darüberhinaus stark konjunkturabhängig und die Steuerbasis innerhalb der EU nicht harmonisiert. Als Option ist sie daher nur langfristig und unter der Voraussetzung einer gemeinschaftlichen, konsolidierten Steuerbasis denkbar.

In der Diskussion um Eigenmittelquellen mit geringerem Ertragspotential sind verschiedene Kandidaten vorgeschlagen worden. Zur Mobilisierung einer derartigen Steuer wird in dieser Studie das Heranziehen von Ressourcen, die nachweislich mit EU-Politiken verknüpft sind bevorzugt, mit besonderem Fokus auf Maßnahmen des Umweltschutzes. In diesem Zusammenhang besteht die Möglichkeit einer doppelten Dividende, zum einen aus der Gewinnung von Ressourcen, zum anderen aus dem Setzen von Anreizen für weniger schädliches Verhalten (hierbei ist zu beachten, dass dies dem gewöhnlichen Steuergrundsatz, die Beeinflussung ökonomischer Aktivität zu minimieren, widerspricht, hier aber als Korrektur von Marktversagen gerechtfertigt werden kann).

Einige dieser Eigenmittelquellen könnten relativ einfach eingeführt werden, andere sind komplexer und setzen womöglich Vertragsänderungen voraus. Für alle Optionen gilt die Annahme, dass die aggregierte fiskalische Belastungswirkung neutral ist, dass Mitgliedsstaaten demnach in der Höhe der Belastungen durch die neue Eigenmittelquelle bei den BNE-Eigenmitteln entlastet werden. Die geeignetsten Kandidaten hierbei sind: Eine Abgabe auf innereuropäische Flüge nach dem Modell, das demnächst in Großbritannien eingeführt werden wird; die Einnahmen aus der bereits beschlossenen Versteigerung von Emissionszertifikaten; und eine mögliche Kohlendioxidsteuer. Eine weitere Möglichkeit, die allerdings einer Änderung der Gründungsverträge bedürfte, wäre die Vergemeinschaftung von Zentralbankeinnahmen. Abgesehen von konstitutionellen Hürden und dem Widerstand der nationalen Zentralbanken besteht hier durch die EWU eine eindeutige Verbindung zu einem gemeinsamen EU-Politikbereich. Das offensichtliche Problem, dass die Mitgliedschaften in EU und Eurozone nicht deckungsgleich sind, macht die Vereinnahmung der Zentralbankeinnahmen als Ressource für den EU-Haushalt hingegen zu einer eher langfristigen Option.

Korrekturen und Ausgleichszahlungen

Rabatte und andere Formen der „Korrektur“ von Nettosalen haben sich zu den umstrittensten Eigenschaften des Eigenmittelsystems entwickelt. Wir sind der Auffassung, dass diese Korrekturen das Ergebnis von Defiziten im gesamten Entscheidungsverfahren zum EU-Haushalt sind und nicht alleine der

Einnahmeseite entspringen. Dennoch sollten Korrekturen, wenn sie für nötig erachtet werden, auf der Einnahmeseite vorgenommen werden, anstatt Ausgabenentscheidungen zu verzerren. Eine hiermit verwandte, aber konzeptuell verschiedene Frage ist, ob es Ausgleichszahlungen über die Einnahmeseite des Haushalts geben sollte. In vielen Steuersystemen existiert eine Progression in der direkten Besteuerung, in der Hinsicht, dass der Anteil des zu versteuernden Einkommens mit dessen Höhe zunimmt.

Szenarien für die Weiterentwicklung des Eigenmittelsystems

Auch wenn es immer möglich ist, einzelne Komponenten des Eigenmittelsystems separat zu reformieren, lehrt die Geschichte, dass jedwede Reform typischerweise Teil eines umfassenderen Maßnahmenpaketes ist. Aus diesem Grund entwickelt diese Studie verschiedene Szenarien für die Zukunft der Einnahmeseite des EU-Haushalts. Diese sind in sich kohärent, reflektieren aber zugleich verschiedene Reformansätze. Mit den Faktoren „Zeit“ und „Umfang der Reformen“ werden zwei grundsätzliche Dimensionen in diesen Szenarien berücksichtigt, die insgesamt vier Reformszenarien ergeben. Die „Minimal“-Szenarien stellen hier nicht viel mehr dar als einen Ansatz zur Vereinfachung des Systems, wohingegen die „Echte EU Eigenmittel“-Szenarien eine umfassendere Reform hin zur Schaffung neuer „genuiner“ Eigenmittelquellen und den Ersatz nationaler Beitragszahlungen vorsehen. In einem fünften, deutlich weitergehenden Szenario „*Taxation with representation*“, entwirft die Studie einen Ausblick auf ein deutlich politisierteres Eigenmittelsystem, in welchem das Europäische Parlament die zentrale Instanz der Ressourcenerhebung wird.

Die verschiedenen Elemente eines Reformpaketes beantworten die Fragen:

- Wie lassen sich die normativen Präferenzen bzgl. des Eigenmittelsystems so umsetzen, dass eine sinnvolle Gesamtzusammensetzung von Einnahmeargumenten entsteht?
- Wie kann sichergestellt werden, dass die Einnahmen die Ausgaben decken und das Gebot des ausgeglichenen Haushalts eingehalten wird?
- Wenn Ungleichgewichte zwischen Mitgliedsstaaten auf der Ausgabenseite zu Entscheidungen über Korrekturen auf der Einnahmeseite führen, wie können diese strukturiert werden?
- Soll ein expliziter Ausgleichsmechanismus Bestandteil der Einnahmeseite sein?
- Soll eine Änderung der Gründungsverträge als Bestandteil von Reformszenarien und deren Abwandlungen zugelassen sein?

Die fünf Szenarien stellen sich wie folgt dar:

- *Minimalreform 2013*: Das Eigenmittelsystem wird durch die Abschaffung der MwSt.-Eigenmittel vereinfacht, der status quo bleibt aber in anderen Aspekten überwiegend bestehen.
- *Echte EU-Eigenmittel 2013*: Eine neue Eigenmittelquelle, die mindestens 25% des EU-Haushalts finanziert wird eingeführt. Eine derartige Veränderung sollte ohne die Notwendigkeit einer Vertragsveränderung auskommen und könnte entweder die Einführung einer EU-weiten Flugabgabe basierend auf dem britischen Modell oder die Einnahmen aus der Versteigerung von Emissionszertifikaten umfassen. Eine weitergehende Variante wäre eine spätere zunehmende Verlagerung der Einnahmen hin zur „genuinen“ Eigenmittelquelle.
- *Minimalreform 2020*: An nationalen Beiträgen wird als Hauptquelle zur Finanzierung des Haushalts festgehalten. Gleichzeitig wird ein allgemeiner Ausgleichsmechanismus in Form progressiver Eigenmittelzahlungen eingeführt. Darüber hinaus wird angenommen, dass Reformen auf der Ausgabenseite Rabatte zur Korrektur von Ungleichgewichten überflüssig gemacht haben.
- *Echte EU-Eigenmittel 2020*: Eine neue Eigenmittelquelle liefert mindestens 40% der benötigten Finanzmittel, so dass zusammen mit den 10% aus den TEM über die Hälfte des EU-Haushalts über „genuine“ Eigenmittel finanziert wird. Für eine derartige Eigenmittelquelle stehen diverse steuerliche und nicht-steuerliche Optionen zur Verfügung. Aus juristischer Sicht setzen die meisten dieser Optionen nicht die Veränderung der Gründungsverträge voraus, unter anderem auch deswegen, da der Lissabonner-Vertrag eine Ausweitung der Befugnisse des Europäischen

Parlaments in Haushaltsfragen vorsieht. Dieses Szenario fordert die Vergemeinschaftung der Einnahmen aus Gemeinschaftspolitiken (wie der Versteigerung von Emissionszertifikaten oder von Notenbankgewinnen). Als Alternative könnte eine Finanzierung auch mit steuerbasierten Ressourcen verwirklicht werden. Nur für den Fall, dass dem Europäischen Parlament das Bestimmungsrecht über die Eigenmittelarten zugesprochen oder Zentralbankgewinne vergemeinschaftet werden sollten, würden Vertragsänderungen notwendig werden.

- „*Taxation with representation*“, wenn auch aus heutiger Sicht unrealistisch, ermöglicht einen deutlich umfangreicheren EU-Haushalt, der sich alleinig aus „genuinen“ Eigenmitteln finanziert. Gegeben den Umfang der benötigten Mittel, wären die Mehrwertsteuer, die Körperschaftssteuer Unternehmenssteuern oder eine Ökosteuer denkbare Optionen. Auch hier würden Vertragsänderungen nötig.

Schlussfolgerungen und Handlungsempfehlungen

Es gibt keinen optimalen Weg, den EU-Haushalt zu finanzieren und es ist eine Illusion zu glauben, es gäbe eine einzige Lösung, die allen ökonomischen wie politischen Geboten in idealer Weise Rechnung trägt. Das bestehende System ist aus verschiedenen Perspektiven zufriedenstellend, insbesondere unter den Aspekten der Bereitstellung ausreichender Finanzmittel und einer akzeptablen Lastenverteilung unter den Mitgliedsstaaten. Es ist zudem imstande, mit Veränderungen im Umfang des Haushaltes umzugehen, so dass, wenn man Hinlänglichkeit als Hauptkriterium an das Eigenmittelsystem anlegt, das bestehende System zufriedenstellend für die meisten absehbaren Veränderungen des EU-Haushalts bleiben wird. Dennoch wird es weiter in der Kritik stehen, sich über Grundprinzipien wie Finanzautonomie, Verantwortlichkeit und Sichtbarkeit hinwegzusetzen.

Aus diesen Gründen plädiert diese Studie für eine „Vergemeinschaftung“ der Einnahmeseite des Haushalts und für eine Zurückdrängung der Nettosalddenlogik als Organisationsprinzip der Einnahmeseite, wohl wissend, dass dieses politisch nicht leicht durchsetzbar sein wird. Der Weg, der nach Meinung dieser Studie einzuschlagen ist, führt über die Bestimmung klarer Präferenzen über die wichtigsten Eigenschaften und die dementsprechende Ausgestaltung des Systems. Infolgedessen ist es die normative Dimension, der die herausragende Bedeutung zukommt und auf die sich die wichtigsten Entscheidungen stützen sollten.

Auf dieser Grundlage wird die Auswahl zwischen unterschiedlichen Finanzierungsinstrumenten, Möglichkeiten der Korrektur von Ungleichgewichten oder Ausgleichsmechanismen zur zweitrangigen Entscheidung und kehrt dabei die Sichtweise um, die bisher zur Betrachtung verschiedener Reformoptionen herangezogen wurde. Anstatt MwSt., Körperschaftssteuer, einen allgemeinen Korrekturmechanismus oder jegliche andere Veränderung daraufhin zu untersuchen, wie diese gegenüber einer Reihe von Kriterien abschneiden, argumentiert diese Studie, dass es die Gewichtung dieser Kriterien ist, die bestimmen sollte, welche Option zu wählen ist. Vor dem Hintergrund dieser Überlegungen präferieren wir eine Finanzierung aus Quellen mit einem direkten Bezug zu Zielen oder Politiken der EU, die gleichzeitig eine doppelte Dividende aufweisen und zugleich sichtbar gegenüber dem Bürger sind. Im gleichen Zusammenhang argumentieren wir, dass es in einem ausgereiften EU-Haushalt keine Notwendigkeiten für Korrekturmechanismen geben sollte und dass jedwede Notwendigkeit diese weiterzuführen immer ein zweitbestes Ergebnis darstellt, das aus einer fehlenden Umgestaltung der Ausgabenseite erwächst. Gleichzeitig plädiert diese Studie für eine Form eines fiskalischen Ausgleichsmechanismus' mithilfe von differenzierten Beitragszahlungen, die sich an der fiskalischen Leistungsfähigkeit der Mitgliedsstaaten orientieren sollten.

Angesichts dieser grundsätzlichen Ziele schlagen wir eine Weiterentwicklung zu einem neuen Eigenmittelsystem in verschiedenen Abschnitten vor, welches durch die Einführung neuer Eigenmittelquellen zum Ziel hat, den Anteil nationaler Beiträge auf 50% oder weniger zu senken, Korrekturmechanismen abzuschaffen und einen begrenzten Ausgleichsmechanismus auf der Einnahmeseite einzuführen. Keines dieser Elemente ist von der technischen Seite her für sich genommen sonderlich anspruchsvoll.

Als neue Eigenmittelquelle, die idealerweise mit dem Beginn eines neuen Mehrjährigen Finanzrahmens im Jahr 2014 eingeführt werden sollte, schlagen wir eine Flugabgabe vor, ähnlich der, die in Kürze in

Großbritannien eingeführt werden wird. Zusammen mit den TEM könnten somit 30% der benötigten Einnahmen aus „genuinen“ Eigenmitteln erhoben werden. Durch die vorbereitende Arbeit des britischen Finanzministeriums zur Einführung der Abgabe wurden bereits diverse Fragen der Praktikabilität geklärt, sowie als möglicher Einwand das Problem aufgeworfen, dass eine alleinige Einführung einer derartigen Abgabe in einem Land zu einem Ausweichen von Passagieren auf Flughäfen anderer Staaten führen könnte. Eine EU-weite Abgabe würde derartigen Wettbewerb praktisch unmöglich machen und es ist nicht undenkbar, dass die kleine Anzahl potentieller Wettbewerber in anderen europäischen Ländern – insbesondere der Züricher Flughafen – überzeugt werden kann, diesen Weg mitzugehen.

Als alternative oder zusätzliche „genuine“ Eigenmittelquelle können entweder die Erlöse der Versteigerung von Emmissionsrechten oder eine Kohlendioxidsteuer, wie etwa eine Abgabe auf Benzin, herangezogen werden. Geschehe dies zusätzlich, so könnten die „genuinen“ Einnahmen auf mindestens 50% gesteigert werden. Dieser Anteil könnte mit Hilfe dieser Ressourcen sogar weiter gesteigert werden, wenn dies politisch gewünscht wäre.

Sollte ein ambitionierterer EU-Haushalt, der eine deutlich höhere Finanzausstattung als die derzeitige Eigenmittelobergrenze von 1,24% EU-BNE voraussetzt, jemals auf der Tagesordnung stehen und sollte dieser substantiell durch „genuine“ Eigenmittel finanziert werden, wäre ein neuartiger Ansatz notwendig. Eine angemessene Harmonisierung vorausgesetzt (die nicht einfach zu erreichen sein wird), wäre die teilweise oder vollständige Abtretung der Körperschaftssteuer an die EU-Ebene eine vernünftige Lösung. Eine derartige Veränderung wäre konsistent mit der Verbesserung des Funktionieren des Binnenmarktes und würde zudem Verzerrungen beseitigen, die daraus entstehen, dass Firmen ihre Gewinne in den Ländern erklären, in denen die Steuersätze am niedrigsten und nicht dort, wo diese entstanden sind.

Wenngleich die beste Lösung ein Auslaufen jedweder Korrekturen wäre, sollte, wenn diese sich auch zukünftig aus politischen Gründen als notwendig erweisen, ein Ansatz gewählt werden, bei dem ein Ziel-Nettosaldo für jedes Mitgliedsland festgelegt wird. In der Folge würde zunächst über die Ausgaben entschieden und dann eine Veränderung der Einnahmeinstrumente vorgenommen, um den entsprechenden Saldo zu erreichen. Bei der Berechnung von Nettosalden sind bestimmte Kategorien, wie etwa Verwaltungskosten oder die Finanzierung öffentlicher Güter, auszuschließen. Die genaue Abgrenzung ist Sache von Verhandlungen, theoretisch aber eindeutig.

Unter der Annahme, dass eine Vertragsänderung unwahrscheinlich ist, die die Verpflichtung lockert, den Haushalt auszugleichen, wird eine residuale Einnahmequelle immer benötigt werden. Dies ist sichergestellt, solange die BNE-Eigenmittel bestehen. Eine einschneidendere Lösung wäre jedoch die Nutzung von Zentralbankgewinnen als Alternative, auch wenn dies eine Vertragsänderung nötig machen würde und daher nicht kurzfristig umsetzbar ist.

Sollte ein Ausgleichsmechanismus auf der Einnahmeseite implementiert werden, so schlägt diese Studie die Einführung eines progressiven Elementes bei den nationalen Beitragszahlungen vor. Zunächst könnte dieses aus unterschiedlichen Beitragsquoten innerhalb bestimmter Grenzwerte bestehen, wenngleich eine Formel, die progressiv den Anteil des BNE, der abzuführen ist erhöht, Probleme umgehen würde, die sich aus der Nähe von Staaten zu bestimmten Grenzwerten ergeben könnten.

Im Hinblick auf die oben dargestellten Szenarien schlagen wir als Vorgehen die Implementierung der zwei „Echte EU Eigentmittel“-Szenarien in zwei Abschnitten vor. Das Ergebnis dieser Studie ist, dass keines der „Minimalreform“-Szenarien ausreichend ist, wenngleich das „*taxation with representation*“-Szenario ohne eine grundlegende Veränderung in der Tiefe der europäischen Integration heute noch einen Schritt zu weit geht.

1 Introduction

Although the EU budget has been and remains only a small component of aggregate public finances in the Union, it has long been contentious. During the 1980s, there were persistent disputes between the institutions and among Member States about the composition of both the revenue and spending sides of the budget. As a result a new framework for the budget was eventually agreed in 1988 and that framework - in its broad features, if not its detail - underpinned the budget for the subsequent two decades. Over that period, the EU itself has manifestly evolved greatly, with its membership increasing from 12 to 27, the advent of EMU and the emergence of significant new policy priorities such as climate change or responding to globalisation in a multi-polar world.

Twenty year on from the 1988 settlement, therefore, a fresh look at all aspects of the EU budget is both timely and necessary, and the review agreed at the December 2005 European Council offers the chance to do so. Now well underway, the review is addressing a series of questions and areas for discussion. Specifically on the revenue side, the consultation paper published by the Commission (2007a) poses two main questions about the financing of the EU budget:

What principles should underpin the revenue side of the budget and how should these be translated in the own resources system?

Is there any justification for maintaining correction or compensatory mechanisms?

The Commission document provides a comprehensive list of principles relevant to the first question, many of which have been extensively discussed in previous research. It also briefly recalls the evolution of correction mechanisms and highlights the tensions that surround the implementation of correction mechanisms. A third, more political question concerning the revenue side is also posed, partly reflecting the concerns that have been articulated by, notably, the European Parliament about the legitimacy and visibility of the current financing system:

What should be the relationship between citizens, policy priorities, and the financing of the EU budget?

This study is concerned with the future financing of the EU budget, including possible budgetary correction mechanisms and is intended to feed into the budget review. The terms of reference, for the study set out two principal objectives:

1. To provide a clear picture and an assessment of the current financing system of the EU and its various components, including correction mechanisms aiming at adjusting national contributions to the financing of the EU
2. To identify and assess possible options for the future, which overcome the weaknesses of the present system. The study will again provide for both a reflection on the financing system, encompassing all its constituent parts and their interaction, and options related to the specific building blocks of this system.

1.1 The political and policy context

Unsurprisingly, there are widely diverging views on how the EU budget should evolve and on how the different components of the revenue side should interact in any future reform. For many Member States, containing the size of the budget is, in its own right, an important imperative for which the exercise of national control and oversight of revenue raising is seen as crucial. Equally, financial autonomy for the Community budget is regarded as a desirable attribute, as well as being directly incorporated in the Treaty through Art. 269 TEC which states that ‘the budget shall be financed wholly from own resources’. In this context, ‘own resources’ are often interpreted to mean revenue sources that ‘belong’ exclusively and as of right to the EU level, in the same way as property taxes are widely assigned to local governments.

Net contributions have, arguably, become the principal negotiating point in the budget over the last twenty-five years. Starting with Mrs Thatcher’s famous demand for ‘my money back’, the trend since has been for an increasing focus on the balance between how much a country pays in and identifiable receipts from the EU level. There are many complications around this question, such as what should be counted on either side of the equation, what classes of expenditure to exclude, what level of imbalance is acceptable

and how it should be corrected. Although an uneasy compromise has allowed successive Multi-annual Financial Frameworks to be adopted, it has only been through increasingly messy mechanisms. In addition, many commentators deplore the fact that so much attention is paid to a simple accounting flow that says little about net benefits from EU membership. The obvious risk in this regard is that expenditure decisions may be distorted towards policies that give visible benefits to particular constituencies, rather than being optimal for the Union as a whole.¹

1.1.1 What is an own resource?

Nearly all the relevant literature on inter-governmental fiscal relations assumes a substantial central government which typically raises more tax than it spends and transfers some of the proceeds to sub-national governments. Unless the EU is portrayed as being equivalent, analytically, to a sub-national government, it is difficult to apply the logic of such conceptions of public finances, not least because issues that greatly test central governments such as how to mediate between the demands of competing sub-national units do not arise. Nevertheless, some aspects of the national:sub-national links are material.

In particular, the literature has some insights to offer into how to define and analyse an owned tax. A very useful overview is provided by Bird (2000) who discusses a number of ways of interpreting the relationships between central and sub-national governments in relation to own taxes. He argues that 'ownership' may rest with sub-national government even if central government collects taxes, provided that the former decides on whether or not to impose the tax, what the tax base is and what rate to charge, and receives the proceeds of the tax. The traditional own resources (TOR), in practice, exemplify this model and there are certain other classes of tax that could be structured in a similar way, notably corporate taxes. Conversely, taxes might be collected by and/or accrue to sub-national governments, yet in practice be entirely determined by central government; as such, they would not be owned in any real sense by the sub-national government. Bird also refers to intermediate cases such as the elective surcharges on federal income tax by Provincial governments in Canada, still collected centrally, or the sharing of VAT between national and regional governments in Russia, but collected locally. The current VAT resource and, indeed, some of the proposals that have been canvassed for a modulated VAT correspond to this intermediate model.

All of these configurations of ownership can be interpreted in different ways. For Bird, however, it is above all where the political decision on the tax rate lies that determines which level of government owns the tax. He suggests two core principles for assigning taxes to sub-national government:

- That the most prosperous sub-national governments should have enough revenue to fund all the services they provide to local residents
- The revenues in question should be collected from local governments

These two principles, in turn, rest on three further ones:

- Governments should match revenue and expenditure
- Governments should be responsible at the margin for financing the expenditures for which they are politically responsible
- Sub-national taxes should not unduly distort the allocation of resources

In practice, inter-governmental systems rarely conform to these conceptual guidelines. Administrative efficiency or feasibility, for example, may dictate that a certain level of government should impose particular taxes, even if the equivalence principle (that a budgetary authority should raise what it spends from owned resources) does not warrant such an assignment. As Tanzi (1996) notes, a hard budget constraint is reinforced where the government in question has to raise the revenue for its marginal expenditures. This is about getting prices right as part of pushing governments to pursue policy objectives efficiently and effectively. Another principle that Bird suggests should apply to sub-national government

¹ For a discussion of this 'common pool' problem, see Osterloh, Heinemann and Mohl (2008)

is that they should not, as a rule, be able to fund their expenditure by taxing non-residents. In this respect there is no constraint at EU level.

General principles about own resources are, in addition, often especially hard to apply to the particular circumstances of the EU, not least because it can be seen as Alain Lamassoure said in evidence to the House of Lords (2007) the EU is more like a territorial collectivity, than the top level of government in a multi-level governance system. The implication is that in looking at own resources in the EU, it is often necessary to treat standard public finance principles with caution. These issues are taken up in greater depth in the next chapter.

1.2 Outline of research approach and of this report

The study on which this report is based has been conducted by a team of specialists on EU budget issues. The study team is grateful for the input provided by research assistants at the University of Ljubljana (Vasja Rant) and the Hertie School (Ole Funke). Throughout, the study team has benefited from the guidance of a steering committee composed of Commission officials, as well as advice from other representatives of the Commission. This report brings together the conceptual and empirical work done in the course of the study, and elaborates policy options. In so doing, it draws attention to the difficult political choices that arise and the normative principles behind them. It should, though, go without saying that the study is independent work and that the analysis and conclusions drawn do not necessarily reflect the advice received.

The work done included a wide-ranging literature review, empirical analysis of different options, a survey of Member States and extensive discussions with representatives of Member States and Community institutions. In any exercise on such a politically sensitive issue as the EU budget, it is essential to strike a balance between academic and pragmatic standpoints. While the positions of Member States are bound to shift gradually over time, they also tend to exhibit great inertia. National positions can partly be inferred from academic and 'grey' policy literature, but for the present study, the survey of Member State officials has provided additional insights.

The survey had two main purposes: to obtain detailed information on how the present system of own resources is working and what problems arise in its operation; and to canvass the opinions of Member State officials, mainly from Finance Ministries, about prospective reforms. The study team recognised from the outset that the second objective would be difficult to achieve because officials may be reluctant to divulge information about their Member State's ambitions for budget reform in advance of real negotiations. Despite this predictable limitation, the exercise yielded useful insights by signalling what the broad preferences of Member States might be, even if details are not forthcoming. Equally, there is a risk that by soliciting information from officials directly involved, there may be a conservative bias to the answers which may not reflect wider political considerations.

1.2.1 Working assumptions

Although the 2008/9 review of the budget rules nothing in or out and has been repeatedly described as being subject to no taboos, it would be unrealistic to ignore the fact that any change in how the EU is funded must start from how it is funded at present and that this path dependency will have a bearing on the degree and pace of change that is feasible. At the same time, a possibly more radical agenda for change should not be ruled out, especially if a longer term perspective is adopted. While it is probably sensible to be somewhat conservative in the short-term (such as for the period immediately after 2013), some of the constraints that seem binding today might be much less so after a transitional phase. Relevant considerations are that:

- Extensive consultations with policy-makers suggests that the size of the budget is unlikely to deviate substantially from its present level of around 1% of GDP in the next decade, with possible implications for the sorts of funding package that is needed. However, a deepening of EMU is the sort of development that might provide a trigger for more radical proposals, as could many of the issues that have risen to the top of the policy agenda in recent years, such as climate change, responding to globalisation or foreign and security policies. It is, therefore, important to keep in mind revenue options that could raise considerably more than 1% of GNI, especially in the longer-term.

- Net contributions have become central to the political economy of the budget, so that even if resources are proposed for which it is less easy to identify precise national contributions, estimations will nevertheless be made. Yet if reforms of the expenditure and revenue side alter perceptions of the budget in a way that commands extensive political support, it is conceivable that net balances could weigh less heavily on budgetary politics.
- A parallel concern is the impact of any reform of own resources on Member State budgets. Spending at the EU level should, in most cases, substitute for and thus lower Member State spending. At the same time, care will be needed to ensure that any revenue source proposed does not compete unduly with, or crowd out, revenues on which other tiers of government rely, unless it is made clear that any revenue raising capacity at the EU level will be compensated by due reduction in the financing requirements imposed on that other tier of government.
- Insofar as it is reasons other than pure revenue raising that prompt a search for an alternative to the present system for funding the EU, it follows that these reasons should be reflected in the choice of alternatives. Thus, if visibility is an objective, it may be compromised if the chosen revenue instrument is either opaque or if a complex sharing arrangement has to be constructed to apportion the proceeds of a revenue stream that is greater than the EU's needs.
- There are also constitutional constraints on what is feasible, such as the obligation to balance the budget, the fact that the Multi-Annual Financial Framework will become a Treaty commitment when the Lisbon Treaty comes into force and the unanimity rule for decision making.

1.2.2 Outline of the report

This final report starts by drawing together conceptual arguments and distilling findings from the academic and other literature. It then examines the functioning of the current system of own resources, including a presentation of the opinions of national officials as revealed by the survey. In chapter 4, the focus is on options for the future, with an emphasis on systemic solutions rather than just changes to specific components of the system. This leads on, in chapter 5 to the elaboration of a number of scenarios that present distinctive packages of ways forward. Chapter 6 presents conclusions and an overview of the study team's recommendations.

2 Literature review and conceptual work

A conceptual assessment of the own resources of the EU budget can basically take two main forms. On the one hand, the attempt can be made to derive a theoretically grounded approach from research on multi-layered fiscal frameworks, in particular from the economics of fiscal federalism. If successful, such an approach could claim to be able to put forward objectively grounded recommendations on how to design an ideal set-up of the revenue side of the EU budget. On the other hand, the position can be taken that the *sui generis* (“one of a kind”) character of the EU, and in particular its financial framework, makes it very difficult or impossible to transpose conclusions from the fiscal federalism literature to recommendations on the design of the revenue side. As a consequence of this second approach, the conceptual discussion would necessarily entail a stronger normative or political component.

The conceptual work underlying this study has explored both avenues. It has sought to assess the suitability of the key conclusions from the fiscal federalism, public finance, and public choice literatures for the EU case and has come to the firm conclusion that the *sui generis* characterisation more accurately describes the EU context and makes such transpositions very difficult. It has therefore developed a more normative basis that underlies the policy proposals made herein.

The sui generis character of the EU budgetary framework

While there is a rich comparative and theoretical literature on the “right” design of the revenue side in multi-layered fiscal frameworks, this type of scholarship generally assumes a clear hierarchical delimitation of political power between the highest layer of governance (central governments) and lower layers of governance (regional or local governments). What is distinctive about the EU level is that, unlike most polities, the highest geographical level in the fiscal constitution is, in many respects, the least autonomous, since it is Member States that have the greatest clout in decision-making.

When it comes to budgetary issues, the *sui generis* character of the EU is even more pronounced than in other areas of policy-making. At present, some 85% of the EU’s revenue comes through a system of intergovernmental transfers (which could also be labelled ‘club membership fees’) and its fiscal character is therefore much closer to the one of an international organization (such as the UN or the OECD (see Appendix 1 for an overview of the financing of international organizations) rather than to the one of an independent layer of governance. Obviously, this own resource framework stands in sharp contrast to the regulatory powers of the EU, which are now the origin of probably one-half of legislative changes in the Member States. Conceptual work in both economics and political science clearly struggles with this institutional uniqueness.

On the face of it, one could expect the very broad body of political economy literature on multi-level fiscal policy-making or fiscal federalism (see Beramendi, 2007a, and Rodden, 2007, for good overviews) to offer ample insights into financing public expenditure in the EU. Yet the immediate problem in exploiting this vast literature is, quite simply, that the ‘bottom up’ character of EU finances is distinctively different from the hierarchical, or ‘top down’ models of governance that underpins most of the contributions to this area of public finance. Hoeller et al. (1996: 8) sum up the salience of fiscal federalism thus: ‘while useful in framing the discussion on the role of public finances in European integration, this literature has a number of important limitations, as it usually explores issues in mature federations with politically-sovereign governments.’

One of the rare real world comparisons that comes close to the current EU framework is the US fiscal framework before the 1930s. In fact, up until 1921 the budgetary process in the United States can be characterised as one of legislative dominance (Schick, 2000), in which the Congress effectively constrained the executive not only over total expenditure but also over individual items of expenditure. The size of the US federal budget was very limited and stable at around 2% of GDP up until the Civil War in the 1860s, and mainly devoted to financing public works projects, defence and the operations of government agencies. In addition, in the absence of a federal income tax, the US budget lacked true own

resources² to commit itself to making major investments in transportation and finance. The major source of US federal revenues throughout the nineteenth century remained the tariff - but the US was a protectionist country throughout the XIXth century, so the rates were high - which accounted for around 80 to 90% of federal revenues (Wallis 2000). Moreover, and despite the lack of a formal constraint on budgetary outcomes, the norm of balanced budgets was broadly maintained. It was not until the 1930s that the US federal budget gained the prominence that it currently enjoys in the allocation of fiscal activity between the different levels of government.

Against this background, the question ‘What can we learn from conceptual or comparative research on multi-layered fiscal frameworks?’ has to be qualified further and has to focus on the extent to which conclusions drawn from such research are applicable to the EU. This section offers a concise summary of the main inferences drawn from a literature survey. A more systematic review of research is contained in Appendix 2 to this report, which contains ‘fiches’ for five main thematic areas of the literature survey (fiscal constitution, fiscal stabilization, tax assignment, tax competition, political economy of fiscal federalism). Those fiches outline the salience and possible insights for the own resource framework of the European Union.

2.1 The main policy conclusions from the literature

Most of the theoretical work on multi-level fiscal frameworks emphasises the existence of dual sovereignties between the centre and the sub-units. Riker’s commonly used definition of federalism refers to ‘a political organization in which the activities of government are divided between regional governments and a central government in such a way that each kind of government has activities on which it makes final decisions’ (Riker, 1964: 101). It is striking that this very fundamental definition can hardly be used in reference to the EU, since it faces the above-mentioned difficulty to identify the centre as the highest layer of governance and to distinguish it from the ‘regional governments’. Moreover, in a normal federation, the highest layer of governance usually serves as the “shadow of hierarchy” when it comes to the mediation of distributional conflicts amongst sub-units on the allocation of common revenue in form of grants or contributions. Manifestly, this is not the case in the (arguably with the very limited exception of cohesion policy). As a consequence, many of the concepts and assessments from the fiscal federalism literature in general have to be dealt with very carefully.

That being said, the key question underlying the research on the economics and political economy of multi-level fiscal governance can clearly be applied to the EU. It focuses on the problem of allocating state functions and instruments to the different levels of government. The main guiding principle in answering that question is the principle of subsidiarity, defined as the ‘the presumption that the provision of public services should be located at the lowest level of government encompassing, in a spatial sense, the relevant benefits and costs’ (Oates 1999: 5). A quite similar approach is put forward by Olson (1969) with the principle of ‘fiscal equivalence’. It refers to the congruence between the geographical scopes of government actions and their financing. Theoretically, each function of government should be financed at the level at which it is consumed (put simply: ‘pay your own bills from your own income’). The main theoretical arguments underlying both the principles of subsidiarity and of fiscal equivalence relate to the avoidance of free-riding. If fiscal equivalence is not present, there is an incentive for beneficiaries of government actions not to contribute to their financing.

We have identified three main policy messages from the fiscal federalism literature that could be of some relevance for the discussion on EU own resources.

First, governments that raise their own revenue face stronger incentives to concentrate on the efficient provision of public goods (Careaga and Weingast, 2002; Weingast, 2005; see also Musgrave, 1997; Gramlich, 1973 and 1987; Oates 1972, 1991 and 1999). The higher the share of transfer money, grant

² Despite the prescience of the founding fathers, as expressed in the *Federalist Papers* – Alexander Hamilton, for example, argued thus in Paper 30: ‘The conclusion is, that there must be interwoven, in the frame of the government, a general power of taxation, in one shape or another.’

money, and revenue sharing, the lower the spending efficiency of the relevant layer of government. The explanation derives from a common pool problem: the incentive to provide public goods decreases if the benefits from providing such goods are shared in a common pool (Osterloh, Mohl and Heinemann, 2007). This could raise the question of whether the creation of genuine own resources of the EU might be instrumental in enhancing the provision of EU public goods. It should be added, however, that there is also a high degree of *joint* provision of public goods in federations, as recently emphasized by Alesina et al. (2001) and Volden (2005).

Second, there is no clear picture from the vast literature on tax competition. It is a key feature of any confederation, that the majority of taxes is raised at the second layer of government (and not the first or highest, as is usually the case in true federations). This institutional set-up raises the question of the degree of tax competition and its consequences. The economic literature sees two opposite effects from tax competition. The famous ‘Tiebout Hypothesis’ (1956) stresses the welfare gains from competition for mobile firms and households, whereas Oates (followed by many others) has summarized the result of tax competition with the straightforward phrase of ‘less than efficient levels of output of social services’ (Oates 1972, p. 143). Generally, the discussion now tends to support Oates and to shift to the conclusion that ‘the original insight that tax competition can lead to inefficiently low taxes and public good levels has been shown to hold in more general settings than originally investigated’ (Wilson 1999, p. 298). A possible inference to draw is that a reining-in of tax competition might be justified, and one means of doing so would be to harmonise taxes more at EU level.

Third, the creation of taxes at the highest level of governance requires a well-functioning system of checks and balances at that same level to limit the common pool problem. As Persson, Roland and Tabellini (1997) and Persson and Tabellini (2003) argue, rents from power and incomplete information at the expense of voters are accentuated in a common pool situation in which the bodies participating in the budgetary procedure are ‘residual claimants’ over the budget (i.e. they can keep the benefits of spending within the majority, putting part of the costs on the excluded minority). From a theoretical perspective, this might help explain why EU Member States seem very reluctant to alter the current set-up on the revenue side in a more supranational direction which would ultimately give the EU revenue that cannot be redirected to Member States when exceeding a basic level of expenditure. That said, put in the real context of the EU institutional set-up, this argument is certainly far too simple. There are no clear dividing lines between majorities and minorities in the EU context. Alliances tend to vary greatly between different groups of actors in both the European Parliament and the Council. In addition, the need for unanimity and Member State ratification of the Own Resources decision means that even a single Member State can block an agreement.

On the basis of those three messages and the overall conceptual discussion, four initial conclusions can be drawn from this conceptual assessment.

- 1) First, the *sui generis character* of the EU makes it very difficult to come to solid theoretically based recommendations from the theoretical literature for the revenue side of the EU budget.
- 2) Second, the most relevant theoretical concept – fiscal equivalence – would require a parallel assessment of the revenue side *and* the expenditure side, which is beyond the scope of this study.
- 3) There are strong theoretical arguments in favour of a true own revenue source at the EU level.
- 4) If such true revenue sources at the EU level were to be envisaged, the institutional framework underlying the current revenue system of the EU would probably have to be reviewed to prevent blocking of decision-making.

2.2 Recommendations for the EU – a more normative approach

In some contrast to the theoretical assessment, a more pragmatic approach could be taken to assess a possible reform of the revenue side of the EU budget. The key insight of such an approach would be that the choice of funding instruments for a given level of government is a political choice, in the sense of necessitating a multi-dimensional trade-off amongst a fairly large number of criteria, some of which may be regarded as ‘universal’, while others apply specifically to federal, or multilevel governmental contexts.

In this vein, this section attempts to provide a general analytical framework by articulating various angles for assessing the possible routes for reform of the financing of the EU budget. Rather than attempting to add to what is already a long list, or to propose a different one, it seems useful to group the various criteria that have been put forward in the already numerous contributions about the financing of the EU budget under four major headings, which may help clarify the policy debates and achieve a relatively less complex weighting scheme. The four headings are the following: (1) the nature of the expenditures to be financed out of the collected funds; (2) market efficiency issues of the resource mechanism; (3) the equity dimension and distributional consequences of the funding scheme; (4) political economy considerations, regarding the way funding devices affect the decision-making process and generates incentives for national governments.

2.2.1 Which expenditures?

The EU budget, as any other budget, is meant to channel resources, levied upon private activities or, more seldom, revenues from public property, into public expenditures that may be of various kinds. The nature of the expenditures to be financed is an important determinant of the choice of financing instruments. In principle, of course, EU expenditures are conducted in the framework of EU common policies; but in practice, many observers and players would point to the redistributive dimension of many such policies in their current guise. It may even be argued that most of the current EU common policies – CAP and structural funds mostly - are of a distributive nature.

Though specifically designed to deal with the assignment of government functions amongst jurisdictional levels in a multi-tier government structure, the theory of fiscal federalism is not of much help in the context of the EU. In terms of expenditures allocation, its broad conclusions would be that, because mobility of firms and capital has increased with completion of the European single market, while that of individuals, although still small, has increased somewhat, at least for some categories (highly skilled, high income individuals, in particular), there could a case for centralizing at the EU budget level some of the functions currently carried out by national governments. With regard to tax revenue allocation, the same argument about the mobility of tax bases may be put forward in favour of centralization, notably where it has become more difficult to determine the true geographical incidence of the taxes.

With regard to the nature of expenditures, one may want to distinguish between three pure types, though each specific item in the budget will usually present a mix, in variable proportions, of these three types. First, some expenditures provide European public goods, in the traditional sense that no European Citizens could be excluded from benefiting from them (a test of “non-excludability”) and that the individual benefit is not lowered by the fact that many Citizens are covered (“non-rivalry in consumption”). Second, some provide goods the benefits of which are, to some extent at least, individualized along country lines, so that they might, in theory at least, be renationalized or financed by some form of user charge. Finally, some EU budget expenditures are clearly redistributive in nature.

2.2.2 Criteria for own resources

Given that the Treaty (Art 269, TEC) stipulates that the EU ‘shall be funded by own resources’ it is useful to consider how the expression is to be interpreted. Conceptually, there are, arguably, four characteristics of an ‘owned’ resource that are germane to the EU debate. The simplest is that the proceeds of the revenue stream are assigned to the level of government in question. Three others are (see the discussion in Bird, 2000) that the tier of government has the power to:

- Assess the revenue source
- Set the rate for it
- Collect the revenue

As Bird puts it (in the context of sub-national government), ‘many taxes may possess only one or two of these characteristics, and the ‘ownership’ of the levy may be unclear’. Equally, it is important to separate the major political decisions surrounding a revenue source from what might just be an agency role in administering it. If the four EU own resources are examined from this perspective, it immediately becomes clear that the picture is, indeed, very fuzzy. The VAT resource is manifestly not ‘owned’ by the

EU level insofar as the definition of its base and the rate at which it is charged (although subject to constraints imposed at the EU level) are both Member State decisions. Moreover, because the take-up of VAT as a European own resource is subject to a variety of corrections designed to ensure comparability across Member States, and now has different rates applied to ensure de facto rebates to certain countries, it has become even less of an EU owned resource. In fact, this is not unusual. As Ebel and Yilmaz (2002) show in a study of emerging markets, there were (at the time they wrote) wide variations evident in practice.

There are also many different types of (actual or potential) own resources. They may be taxes, clearly assigned non-tax revenue streams that result from impositions on economic actors, direct user charges for services provided by a government, earnings from assets/endowments or (as in the case of the World Bank and the IMF – see appendix 1) the intermediation margin earned from provision of loans to members.

2.2.3 Market efficiency aspects of potential ‘own resources’

If one extends the reasoning put forward by Olson (1969), initially set in terms of assignment of expenditures, a modified ‘principle of fiscal equivalence’ would look at the mobility of tax bases and tailor the assignment of tax powers amongst various government levels to the various degrees and span of mobility. This exercise would have to take into account the existence of the European single market and the implications created by it.

Improving the functioning of the European single market

Economic analysis of taxation deals extensively with the effects of tax instruments on incentives, and hence on private sector choices to supply work, to save and consume, to invest, etc. Two instruments do not fall victims to such effects on incentives, namely the taxation of economic rents and lump-sum taxes in general. But the EU is not rich with natural resources, which makes one major source of rent-taxation unavailable; and imposing levies on other economic rents turns out to be very difficult in practice. However, it may be argued that whenever public policies generate benefits to some categories of private agents, the induced rents may be partially taxed away, a principle close in theory to the notion of user charges. Though difficult to evaluate, these policy-induced economic rents certainly exist in the European single market. Hence, some have argued in favour of taxing the benefits accruing to firms from the existence of the single market. But in theory, such benefits should be very widespread, and accrue not only to firms, but also to consumers.

Resorting to lump-sum taxation, either at the level of individuals or of member-states may be tempting, but would undoubtedly be vigorously opposed by many on equity grounds, as has always been the case with attempts to use lump-sum taxation in national context – as Mrs Thatcher learned to her cost after introducing a poll tax to finance local government.

Apart from such taxes, it is recognised that all forms of taxation introduce relative price distortions that may generate inefficiencies in the allocation of resources by the private sector and deadweight losses. Hence, it is impossible to conceive of a tax system that is costless. But economic analysis also demonstrates that this inefficiency is related to the magnitude of the price distortion, itself dependent on the marginal effective rate of taxation. Therefore, a tax system that aims at minimizing inefficiency should be characterized by broad bases and low marginal rates. In addition, as was demonstrated long ago by Ramsey (1927), the more price-inelastic the tax base is – i.e. the less it changes in reaction to relative price or tax rate modifications - the less inefficient the tax instrument.

In the current European context, characterized by internally mobile tax bases, but also by international mobility of some of them, this Ramsey criterion has to be extended and interpreted broadly to include considerations about mobility of tax bases. Because some tax bases are obviously more mobile than others – one may especially think of financial capital and firms- assigning tax powers over these mobile bases to the EU level would entail the triple benefit of mitigating the Ramsey problem and lessening the pressure of horizontal tax competition (see, e.g., Le Cacheux, 2000, and Saint-Etienne and Le Cacheux, 2005), of reducing the magnitude of distortions introduced in private location decisions by the existence of different, national tax bases and rates, and of providing the EU budget with a resource that is levied over the whole area over which the benefits of European public goods accrue, thus minimizing spillover

effects, in the spirit of Olson's fiscal equivalence. However, the size of the triple benefit has to be put into the perspective of the relatively small size of the EU budget (see also Chapter 4).

Remedying market failures

In a number of well-defined circumstances, efficiency may imply deliberately introducing price distortions: whenever there are negative external effects, market prices do not properly reflect social costs, and the so-called *Pigouvian* solution to restore efficiency entails introducing distortionary taxation in order to correct externalities and produce the right incentives; this is the well-known case for many forms of environmental taxation. Two distinct arguments can be put forward for such taxes to be decided and operated at the EU level rather than at the national: one is the collective decision-making argument, in terms of potential free riding (see below); the other is in terms of the smooth functioning of the European single market and ensuring a level playing field for private agents operating in this integrated area. Even though it may be argued that most major environmental protection issues – and most prominently the much-discussed fight against climate change – are worldwide public goods, they clearly also have a European dimension, especially if the EU is to take unilateral action on some such policies, as is foreshadowed in the Energy Policy for Europe.

Efficient stabilization and growth

The case for equipping the EU budget with instruments, especially on the revenue side, that play a role in macroeconomic stabilization has long been made in some quarters, at least since the McDougall report (1977) (see also Goodhart and Smith and the other contributions in the collective volume in the *Reports and Studies*, series of *European Economy*, n°5, 1993). Modern thinking about fiscal stabilization has clearly moved away from discretionary manipulation of tax and expenditure instruments; but the case for having automatic stabilizers, especially on the revenue side of the budget, has been recently restated forcefully with new arguments (see, in particular, Aghion and Marinescu, 2006, and Dullien and Schwarzer, 2007). Though facing the difficulty that some EU countries are not members of the euro area, this would plead in favour of having a resource in the EU budget whose revenue is sensitive to business fluctuations. It is, though, important to recognise that stabilisation would imply breaching the balanced budget rule by allowing deficit financing at the EU level. An alternative would be to establish some sort of 'rainy-day fund' that would be built-up in good times and spent in bad times, thereby potentially raising problems related to the political control and the possible temptations to spend the money in good times.

2.2.4 Distributional consequences and the equity dimension

Efficiency is not the only criterion for a 'good' tax system. It should also fulfil some 'equity' requirement. Yet there are differing ways of interpreting equity and this gives rise to further layers of complication in assessing potential revenue instruments.

Interindividual vs interstate horizontal equity

In relation to individual citizens, equity has two distinct meanings: either 'horizontal equity' (the equivalent in matters of taxation of the principle of 'equal treatment of equals'); or 'vertical equity' (traditionally understood to refer to ability to pay, and often also to some form of progressiveness in individual tax burdens).

Fairness in the EU context

In theory, horizontal equity means the equal treatment of equals, referring to individuals. In multilevel governmental settings and in particular in federations or pseudo-federal contexts, however, this notion is complicated by the consideration of another notion of 'fairness' which refers to the component constituencies: ability to pay is often assessed at the level of Member States, not of individuals. The two usually differ immensely, insofar as income distributions within Member States are different. Any supranational tax therefore has to result from a compromise between at least two notions of 'fairness', not to mention the regional component, which is so central in structural policies funded by the EU budget.

In the case of the EU budget, the initial situation is one in which the second meaning of 'fairness' has been given considerable attention. The previous reform of the 'own resource system' in effect exclusively

emphasized this meaning by choosing the GDP-based national contribution formula³. And the protracted intergovernmental negotiations over the latest medium-term financial perspectives have shown that an exacerbated – and largely unfounded (Le Cacheux, 2005b) – measure of ‘fair’ national contributions, understood as ‘net national contributions’, leads to a messy compromise and to a distribution of financial burdens that gives no weight to individual horizontal equity, and indeed not much to regional horizontal equity. The fact that a limited and dubious measure of the ‘fairness amongst Member States’ (accounting balances) has been used so far by no means implies that this notion is irrelevant or ill-founded. Indeed, some acceptable burden sharing for the financing of the EU budget will have to be found if a genuine own resource, such as a European tax, is to be deemed acceptable by all. Some key questions to be answered in this context relate to whether and how progressivity could be brought more clearly into discussions on the EU budget and whether there should be a cap for contributions.

2.2.5 Correction mechanisms

Since the UK started in the 1970s to object to what it saw as (and what was ultimately recognised to be) an unfair burden of contributions towards the EU budget, the notion of *juste retour* has come to dominate the strategic settlement of the financial perspectives. *Juste retour* is essentially about **net** contributions and the calculus underpinning it is the balance between payments by Member States to the EU and receipts from it, expressed as a percentage of GNI. This balance, in turn, is the result of deliberate choices about policies such as cohesion that call for net fiscal transfers, as well as the incidence of other policies on gross receipts and the funding instruments on gross payments.

If the formulae for funding the budget using the existing four own resources had been applied without any corrections, the gross, ex-ante contributions of Member States would have been roughly proportional to GNI, with the clear message that it is the expenditure side that accounts for the imbalances in net contributions/receipts. The question that then arises is whether these outcomes reflect the collective preferences of the Member States or are unintended to a degree that warrants correction. Plainly, since the original correction mechanisms were established in 1984, the latter view has prevailed.

To deal with the resulting anomalies, corrections have been achieved in a variety of ways: some explicit, while others are more ‘back-door’ in nature; some involve the revenue side, and some are about redirection of EU expenditures to Member States that pay-in the most. These corrections have become an increasingly messy feature of the budget in successive multi-annual frameworks.

There are many different ways in which corrections could be effected on the revenue side of the budget. The first is simply to give an overall cash rebate to the Member State deemed to face an excessive burden, with other Member States having to pay correspondingly more. Essentially this is what happens with the UK abatement, agreed in 1984 and maintained ever since (albeit with some changes in the detail). However, the terms of the correction matter. The relevant parameters are as follows

- The threshold that is applied. In the UK case, the threshold was set at actual balance, with any net payment over balance abated. The generalised correction mechanism (GCM) proposed by the Commission in 2004 suggested that the threshold should be 0.35% of GNI and the Commission, in the annex to its 2004 Own Resources Report⁴ works through a range of alternative mechanisms.
- The extent of the abatement (two-thirds has been the rate for the UK) and was also canvassed for the GCM.
- How to apportion the cost of any correction among other Member States. Here, the GNI key has been the choice. A complication has been the ‘rebates on the rebate’, initially accorded to Germany in the

³ There is also mounting evidence of the use of this notion in European states that are not explicitly federal, but have been engaging in ambitious devolution programs. Hence, in Spain and in Italy, for instance, the debate over inter-regional ‘fairness’, sometimes even framed in the (erroneous) notion of ‘net contributions’, has gained momentum.

⁴ COM(2004) 505 final, 14.7.2004

1984 Fontainebleau, and since extended to here other Member States (Austria, the Netherlands and Sweden).

- Although it is the obvious one, GNI need not, however, be the key used, or could be one of a number of such keys, although this would be at the expense of further complicating an already complicated arrangement.
- Alternatives could be to use some measure of the overall tax capacity of a Member State or to pin the cost of paying for the abatement to specific structural characteristics of an economy.
- A parameter especially relevant if there is any disposition to generalise corrections, is whether to impose any overall cap on the total correction. Here the Commission's 2004 proposal was quite tough in suggesting a relatively low cap.
 - A variation on the formula here could, in addition, be to determine the size of the CAP endogenously, for example by relating it to payment appropriations (or some other determinant) in the year in question, rather than having an ex-ante ceiling.
- The eligible expenditure on which the correction is based is a further consideration. There is a strong case for excluding expenditure on administration or other activities which may be 'in' a Member State – Belgium and Luxembourg especially – but not directly 'for' that Member State. Similarly, a more political factor that applied to the amendment of the UK abatement for the 2007-13 MFF was that cohesion policy in the recently acceded Member States was left out of the formula. Obviously, whenever public goods are being provided at the EU level, the financing of such goods should be excluded from calculating correction mechanisms.

A second mechanism that has grown in importance in the 2007-13 MFF is to impose lower 'call-up' rates on some of the existing own resources for selected Member States. Such reductions are now in place for four Member States for the VAT resource, and for two (The Netherlands and Sweden) for the GNI resource. In addition, the increase in the collection fee for TOR agreed in 1999 for the 2000-06 *Financial Perspective* is a de facto rebate for those Member States (above all the Netherlands) which collect disproportionate amounts of TOR. Analytically, these 'discounts' differ from the UK abatement or the Commission conception of a GCM insofar as they will not change in response to fluctuations in the annual EU expenditure. In other words, this form of correction may over- or under-shoot if actual expenditure in a Member State diverges from what was expected when the correction was agreed.

A third approach on the revenue side could be to introduce an element of progressivity in gross payments, rather than proportionality as at present. This would be less a correction than a means of legitimating imbalances and thus weakening the case for a correction, in effect building in a degree of overt equalisation into the revenue side of the budget. In fact, corrections and equalisation payments can, to a considerable degree, be considered to be two sides of the same coin. Progressivity could be on a banding system (for example, by setting bands of 0.8% of GNI, 1% and 1.2%) or could be a smoother curve that gradually increases the rate up to a maximum level – the Padoa-Schioppa (1987) report put forward such a proposal.

A similar approach would be to vary the rate at which EU policies are financed by the Community budget as opposed to the national budgets, given that co-financing is a feature of many EU expenditure programmes. Varied co-financing rates are already applied for cohesion expenditure and could, therefore, be envisaged for other policies, especially the CAP⁵. Some Member States (see for example a paper by Ed Balls, 2006, formerly a UK Treasury minister) have called for more use of EIB loans of other lending as a means of financing EU policies, easing the pressure on direct revenue. If loans were to become more

⁵ As an illustration, Nunez Ferrer (2008) argues that national co-financing of agricultural spending could help to mitigate the net balance problem, although he acknowledges the political economy problems. To help break the logjam, he proposes two novel approaches that reflect either productivity or gross value added in the agricultural sector alone, instead of net balance calculation on overall GNI.

prominent, further debate would be needed on terms, such as the length of the loan and the repayment schedule, the interest rate to be charged and the incidence of guarantees.

2.2.6 Democratic legitimacy and efficient decision-making over the EU budget with a sound financing scheme

However compelling some of the above arguments in favour of new own resources for the European budget, one must recognize the political difficulties that would be related to creating them. Indeed the weight of evidence (including the results of the survey of national administrations' opinions reported below) is that the current state of affairs, with the GNI resource providing the bulk of the financing, may be regarded as fairly satisfactory from many perspectives, especially when it comes to adequacy of funding.

The history of multi-level government structures offers some lessons and it is interesting to note that the issue of financial resources for the common budget has occurred in all existing and defunct federal structures. Most started out with a system that closely resembles the current EU budget funding scheme: a relatively small amount of genuine own resources, usually from tariffs –which, in the context of XIXth century, used to represent a higher relative share of total financial needs than today, given the more protectionist stance of all governments at the time, and the relatively smaller share of GDP spent through public budgets. The remaining revenue came from vertical grants from the national budgets of Member States to the central budget. Yet most federations eventually felt it necessary to reform such funding schemes, mainly because they wanted to increase the role of the central budget in the provision of public goods and to achieve more financial solidarity, and at times also more redistribution, in sharing the financial burden.

But it may be argued that the ultimate reason for switching from a system based on vertical financial transfers to genuine, mostly tax-based own resources for the central budget was effectiveness in collective decision-making. Indeed, when comparing the history of two important central-European federations - the German Reich and the Austro-Hungarian Empire - in the last decades of the XIXth century and the first years of the XXth century, the diverging routes they take in terms of financial burden sharing and decision-making procedures over common expenditures for federal, public goods, most notably defence, may probably explain a good deal of the differences observed in the functioning of these federal systems and their performance, both in economic growth and development and more generally in delivering on public policies. Indeed, whereas the Austro-Hungarian Empire, with the Agreements of 1878, adopted a decision-making mechanism and a financing scheme that bears a close resemblance to the current EU ones, relying almost exclusively on automatic, formula-based, vertical transfers from the constituent kingdoms' budgets to the imperial budget, the German Reich quickly moved away from an initial financial arrangement that, in 1871, had grounded the financing of the central budget on tariffs, supplemented by vertical transfers, to the adoption of a modern system of federal, personal income tax, one of the first on the Continent. In Switzerland, the agreement of the 1848 constitution and the subsequent extension of the (con)federal tax powers also offers an interesting model.

One major line of reasoning in favour of assigning autonomous own resource powers at the EU level, instead of relying on the current, automatic vertical grants mechanism rests on the respective properties of various funding schemes in terms of efficiency of the political decision-making process over expenditures and financing. First, the current system is notoriously opaque, making it almost impossible for EU citizens to ascertain the actual amount of their individual contribution to the EU budget (discussed further in Box 3.2, below): this feature alone would be enough to raise doubts about the current funding scheme when it is assessed in terms of accountability. The EU budget is often (and often cynically) portrayed as an insatiable and very costly Leviathan, sucking national resources to finance useless, or even harmful policies that benefit a few well-organized lobbies of producers; but when it comes to how much it actually levies on individual taxpayers, the amount quoted are usually grossly exaggerated. This is so, not only because the GNI resource is not based on a specific tax, but also because, being treated as general expenditure in national budgets of Member States, it is impossible to ascertain who – citizens or interest groups - effectively bears the cost of financing the EU.

Because its effective incidence differs from country to country, according to the structure of general taxation in each Member State, the presumption is usually that it is being paid by everybody. This is not

fully correct. Indeed, the GNI resource gives the wrong impression that effective financial burdens on citizens are actually distributed according to each country's 'income' and hence ability to pay. A closer look at national structures shows however that this is highly unlikely: income tax burdens and their interpersonal distribution vary greatly from country to country; the share and rates of VAT and other indirect taxes in total tax receipts also differ widely from one country to the other, so that the amount effectively paid by domestic consumers, but also the amount effectively borne by foreign producers for those taxes levied on imports (VAT) are actually very far from the apparent distribution of tax burdens. On the other hand, for citizens in any Member State, there may be actual or perceived opportunity costs from contributions to the EU budget that engender opposition.

Thus, it would seem that the major objection to the current state of affairs stemming from an analysis in terms of political economy of collective decision-making has to do with the issue of incentives bearing on decision-makers. The major problem lies in the automatic linkage it introduced between any expenditure decision and the distribution of the corresponding financial burden across Member States' national budgets. Comparing the current EU-budget decision-making with the ones in use in all democracies may help identify the source of the problem: in most national parliaments, the elected representatives make separate decisions over expenditures and over the financing of the overall budgets; in many cases, the constitution formally forbids the allocation of the proceeds of a specific tax to a specific expenditures, and actually this is a major foundation for having a general budget, funded from general taxation, rather than separate accounts for each single function, financed by distinct resource instruments. The idea behind such a clear separation between spending decisions and decisions over their financing would seem to be precisely that it prevents MPs from making the explicit linkage between spending and the distribution of the financing burden across jurisdictions. It does not imply that such distributional considerations are absent when they vote on common expenditures, but the direct implications of any specific decision in terms of inter-jurisdictional distribution are not so easily ascertained.

On the other hand, the accountability aspect of the process may be said to be better secured when the funding scheme rests on a well-identified tax resource, insofar as debates in the decision-making bodies will then clearly be conducted in terms of effective tax-prices for the various categories of taxpayers, rather than in terms of national net benefits or costs.

Accountability should be both to those who pay and receive – not often the same groups. It implies awareness (Bird, 2000) of:

- What is done
- How it is done
- How much it costs
- Who paid for it

The arguments for fiscal transparency concern not just holding the government to account for what it does and how it does it, but also to engage the public in determining priorities. Politicians, on the other hand, often prefer to keep public finances hidden. Bird argues that transparency is even more vital in multi-level governance systems, but also observes that the search for an ideal may be misplaced. Principles matter, but are often easier to expound than to implement, but they nevertheless deserve some attention in thinking about how to fund the EU budget. A possible implication is that despite the political difficulties and the reluctance of many to put the issue on the table, transparency should be a more prominent facet of the choices around funding.

2.3 Implications

The assessments and recommendations presented in the second part of this chapter derive from the conceptual literature. They have to be put into perspective on the basis of a thorough analysis of the current functioning of the EU budget before being used as actual policy recommendations in the context of the current review. It has become clear that the *sui generis* character of the EU and in particular its finances makes the application of analytically based recommendations from the theoretical literatures difficult or impossible. The choice of an appropriate own resource framework in the EU therefore implies

considering options on a more normative basis. As a result, it has to be expected that there will be differences of opinion about what constitutes an optimal system, a corollary of which is that there cannot be a single 'ideal' solution for funding the EU. An assessment of the functioning of the existing system and of potential reforms consequently has to bring together positive and normative elements to arrive at a convincing analysis.

3 The functioning of the current system

The current system of own resources came into being in 1988, but has been substantially modified in successive own resources decisions since then. It nevertheless still has the same four resources as revenue sources and their properties shape the way the system functions. This chapter begins by outlining the operation of the current system and assessing its principal properties.

3.1 The evolution of own resources

As the EU itself has evolved from its early days as, first the European Coal and Steel Community, through the European Economic Community, different approaches to funding have been taken. As is well-known, the EU budget today is funded from four revenue streams:

- Levies on agricultural products entering the EU from elsewhere and sugar levies paid by European sugar farmers (the latter due to diminish sharply as a result of the latest reforms)
- Customs duties on imports of goods subject to the common external tariff
- A proportion of the receipts from national value added taxes (VAT), harmonised to reflect differences in coverage and rates, now with differentiated take-up rates
- The gross national income (GNI) resource which is called up in proportion to the GNI of Member States, albeit now with a temporary annual reduction for the Netherlands and Sweden

However, there have been different phases in this evolution and it is worth looking, first, at how the current mix of resources came into being.

3.1.1 Milestones in evolution of the own resources system

The European Coal and Steel Community (ECSC) had a budget which contained a very modern ‘communitarian’ element as a reflection of the ‘communitarian’ nature of the ECSC itself. ECSC expenditure was financed through a tax-based resource, i.e., through a levy on steel production. This levy on steel production guaranteed complete financial independence to the ECSC from its underlying Member States and required no other element to finance the budget.

Financing through direct levies was not accepted as a way to finance the early budgets of the European Economic Community up to the end of the 1960s. On the contrary, they were financed exclusively in an intergovernmental way, similar to the one through which other international organisations are typically financed. The Treaty of Rome specified that the budget should be financed fully through direct contributions from Member States before changing over to a system of own resources. This consequently meant that no other funding sources were envisaged at that time. In contrast to the autonomy of ECSC budget, the Community budget of that time had no levying capacity and therefore no financial autonomy from its Member States.

In 1965, a first attempt to transfer customs duties and agricultural levies – the ‘natural’ own resources deriving from Community policies (the customs union and the common agricultural policy) – from national to EC budget failed, but a few years later, in 1970, the system of own resources was finally introduced. This decision foreshadowed an end to national contributions and at the same time the beginning of an independent system of the EU budget financing. The 1970 Council decision actually introduced a quite dramatic change to the revenue side of the EU budget that still today represents the backbone of the current structure of the EU own resources system. The decision introduced three resources: (i) agricultural and sugar levies (introduced in 1971), (ii) custom duties (progressively introduced during 1971-1975); and (iii) the VAT resource (fully implemented since 1979). This structure was adjusted in 1984 when the Council introduced the UK rebate which actually means a reduction of the UK’s contribution to the EU budget. In a final step, in 1988, the Council introduced a fourth resource, linked to Member State GNP/GNI.

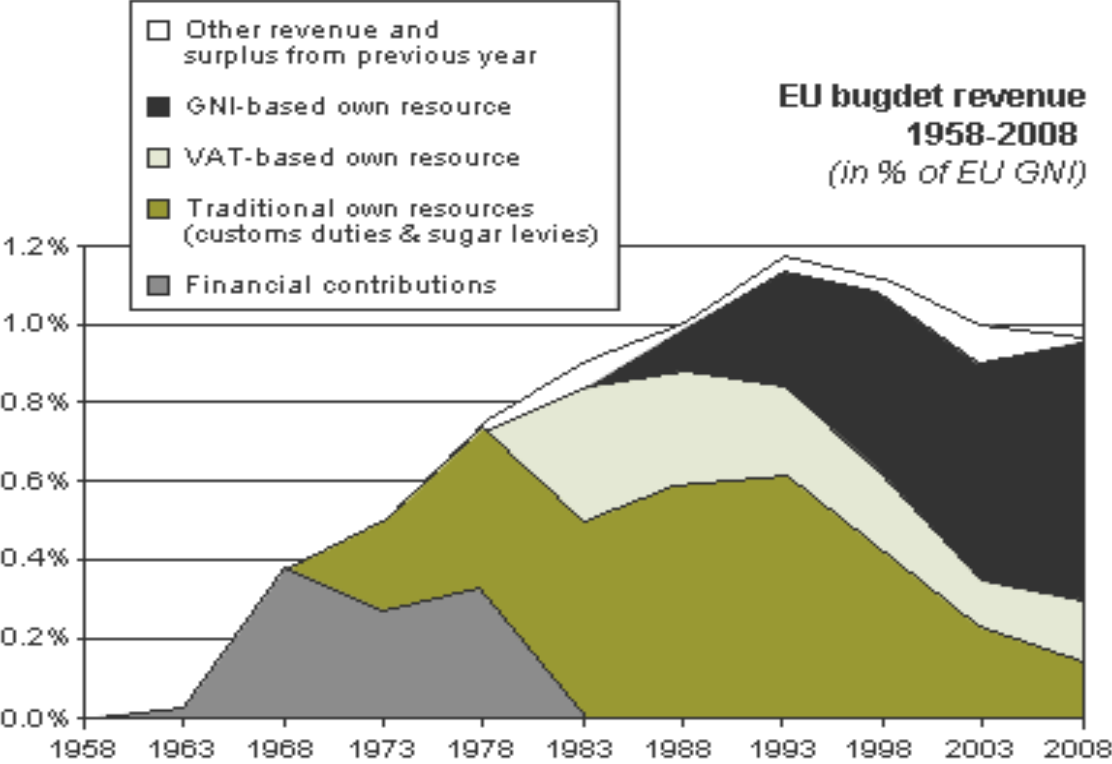
The GNI resource was introduced because EU expenditures started to exceed revenues in the 1980s, a result of continuing growth in spending in agriculture and a significant expansion of cohesion expenditures channelled to less developed Member States. Though the GNI resource was initially

considered to be only a marginal source that would be equal to the shortfall between the total expenditure and revenue raised by the three other resources, it has since become the dominant source of funding. Its introduction had two important consequences. On the one hand, it has successfully addressed the issue of financial sufficiency of the EU budget by calling national governments to close the expenditure / revenue gap, but on the other hand, it had a price in the form of a substantially reduced financial autonomy of the EU. It is also argued that a system largely financed through the GNI based national contributions, focuses the attention of Member States on the national contribution and consequently on the *juste retour* issues.

3.1.2 Shifts in funding shares

Since 1988, the principal developments of the system have been the progressive decline in the share of total funding coming from the VAT resource and the parallel increase in the proportion from the GNI resource – see figure 3.1. The two traditional own resources have also fallen in importance since the 1980s, and certainly since their share peaked in the mid-1970s, but have stabilised in recent years.

Figure 3.1 The changing shape of EU revenues



Source: DG Budg web-site, European Commission (2007)

What is clear about the trend over the last two decades is that the proportion of funding raised from the two resources that can be described as most explicitly ‘owned’ at Community level has diminished markedly, while the share of the inter-governmental transfers has grown. This evolution raises two main issues. First, it is an open question whether the progressive erosion of the VAT resource casts doubt on its continued use, especially as the harmonisation process breaks a direct link to what VAT *actually* raises in each Member State. Second, the increasing reliance on inter-governmental transfers, rather than genuine EU revenue instruments is seen by many as problematic. The GNI resource, in particular, has been subject to considerable criticism, yet it manifestly remains the preferred option for many Member States. To nourish the debate, boxes 3.1 and 3.2 present the principal arguments for and against the GNI resource.

Box 3.1 In praise of the GNI resource...

The principal attraction of the GNI resource is that it assures a sufficient and stable flow of funding for the EU budget. Key to these attributes is the residual character of the resource, with calls on it that are determined by the amount of expenditure: if more expenditure is agreed the amount Member States have to raise from the resource expands. Calls on the resource are limited only by the own resources ceiling. In principle, another, possibly more visible resource could fulfil this residual function, but the likelihood is that it would have to be calibrated to GNI, so that it might as well be the current one.

Insofar as fairness between Member States in gross contributions to the EU budget is a desired characteristic, the GNI resource is very effective because the (pre-corrections) take up rate is set to take equal proportions of national income from each country. Although the amounts are not often made very visible to tax-payers in Member States, they certainly could be and it can be argued that the resource, as a defined proportion of GNI can be made perfectly transparent, contrary to often-articulated criticisms.

In cash-flow terms, the resource is straightforward for the Commission, in its capacity as the EU's executive, to administer. Even with the complications introduced by the UK abatement and the lower call-up rates granted to the Netherlands and Sweden for the 2007-13 MFF, the amounts due under the resource are easily calculated and obligations in terms of monthly payments are clear to Member States.

There is a firm legal base for the GNI resource in the Own Resources Decision (which is usually revised at the start of the MFF), an arrangement which militates against any conceivable threat that a Member State might renege on its commitments. Thus, although the GNI resource is, in practice, an inter-governmental transfer rather than a conventional 'own' tax as understood in the tax policy literature, in strictly legal terms it fulfils the Treaty obligation that the budget should be funded by own resources.

Box 3.2 Reasons for the GNI resource to be replaced.

Why replace the current GNI resource, when it seems to be widely accepted by governments and national administrations, and to be providing adequate financing for the EU budget with such a simple and straightforward mechanism? Why is it that, at least apparently, both the Commission and the European Parliament seem to consider the current funding scheme as one of the major obstacles to achieving better decisions over the EU budget? The case against the GNI resource rests on at least two distinct arguments: one is in terms of efficiency of decision-making processes; the second one has to do with the notion of 'net national contributions', and also relates to the notion of horizontal equity.

Efficiency in financing any budget should be understood in two distinct ways: one has to do with distortions in private sector incentives, and hence decisions; the other relates to efficient public decision-making rules and procedures. Referring to the first meaning, it may be argued that the GNI resource is a source of more distortions in private incentives than a genuine own resource, that would be levied uniformly on all taxpayers across the whole EU. The reason is simply that national structures differ, so that the effective burden of financing even an exactly equal percentage of GNI with national taxation will not be distributed evenly across categories of taxpayers, and will thus introduce –admittedly small—exceptions to the rule of the 'level playing field' that is widely regarded as one major guidelines of EU policies when it comes to the single market and competition policies. There will thus be distortions in private allocation decisions, most likely for mobile tax bases, such as firms and financial investments. This effect is admittedly small, given the current small size of the GNI levy; it would be more of a problem in case of a significant increase in the EU budget size financed by a higher GNI contribution.

In terms of public decision-making, efficiency should be understood, not so much as a notion of cost-effectiveness from the administrative point of view, as the capacity of the whole process of decision-making to cater to citizens' demands and deliver public policies that are in line with individual citizens' preferences. On these grounds, the record of the current financing scheme is clearly not very good, at least judging by the widespread dissatisfaction expressed by most EU Council members, the EU Commission, the European Parliament, and many analysts about the outcome of the latest round of negotiations over the medium-term financial perspectives for 2007-2013, leading to the call for a thorough mid-term review. The major problem would seem to lie in the linkage of decisions on expenditures and on their financing by national payments which is made very explicit and immediate in the current funding scheme. National administrations would still be able to calculate national (gross and net) contributions under alternative schemes relying on genuine own resources; but the debates would likely be more in terms of the distribution of effective tax burdens on categories of taxpayers, which is more appropriate from a political accountability point of view, than in terms distribution across national budgets.

The second argument is related to the notion of '*net national contributions*' and its interpretation. Indeed, relying on a system of bottom-up vertical grants to fund the EU budget is a very effective way of emphasizing the amount that is being transferred and of inducing members of national governments, national civil servants, and members of national parliaments to regard it as an expenditure item in national budgets. Although this may be seen as a welcome incentive for them to exert control of the use of national taxpayers money by the supranational bodies, it is not so in practice, because of the medium-

term financial framework procedure, which makes the role of national parliaments negligible in practice, especially because, once it has been adopted, the financial framework is binding and makes annual national contributions automatic, therefore not subject to national parliaments' control. Much more damaging (see Le Cacheux, 2005b) is the erroneous interpretation of the 'net contributions' as being a measure of the effective distribution of net benefits and costs from the EU budget: the geographical incidence of the taxes levied is actually not what it appears to be from the GNI contributions, just as the effective distribution of benefits from expenditures is seldom what is reflected in the geographical split of expenditures used by the Commission and Member States.

A third concern is that GNI, itself, is not an ideal measure of ability to pay, the tax principle that most obviously underpins its use, even with the obligation on Member States to conform to the ESA standard for reporting. Constant monitoring from a GNI committee and a system that ensures that the amounts countries pay are adjusted following data revisions are safeguards, but major revisions of GNI, such as that for Greece in 2007, cause greater problems. In addition, current-price GNI does not fully reflect differences in living standards, especially in a group of countries with widely different standards of living (see below, 3.4.4). Moreover, GNI as a concept does not equate to national well-being, and there are elements of economic activity which either are included (spending on heating, for example) or not included (unpaid household work, but also environmental degradation) about which there are methodological doubts. According to evidence given to the House of Lords (2007), a specific element of GNI (FISIM – the imputed income of financial intermediaries) is not included in the definition of GNI used for calculating Member States' payments, but might add only one or two percentage points to the GNI of certain countries and thus only marginally affects what different countries pay, though for Luxembourg it could be more substantial.

3.2 How the system functions

The current system of own resources has one major advantage over most conceivable alternatives, which is that it successfully funds the annual EU budget and does so with little or no friction, once the major disputes around the MFF and the periodic Own Resources Decisions are settled. Indeed, it would only be if a Member State, for whatever reason, were to threaten to renege on a GNI (or, possibly, VAT) payment that any funding problem would arise. From an administrative perspective, too, the procedures are straightforward: Member States are expected to remit payments once a month and there is no evidence that this has caused problems.

Correction mechanisms exist on both the expenditure and the revenue side of the budget. On the expenditure side, there have been various ad hoc payments over the years that have, *de facto*, had the objective of altering the net positions of the Member States, while also affecting the internal distribution of EU spending within a Member State, even if presented as policy decisions. Most of the explicit correction mechanisms are, though, on the revenue side, including the UK abatement, the differentiated call-up rates for the GNI and VAT resources and the charges for collecting TOR. The ways in which these corrections function are geared to achieving desired outcomes for *net* contributions, but they do affect the level of actual *gross* payments and, for this reason, the cash-flow positions of different Member States. Especially where expenditure programmes, such as those supported by the Structural and Cohesion Funds, are slow to be implemented, the net impact can be that Member States which are due to be substantial net beneficiaries from the EU budget may face a higher fiscal burden in the early years of a multi-annual budgeting period. Clearly, if their expenditure subsequently 'catches-up' they will then have better annual net position, although previous experience suggests a risk that money will never be spent.

3.2.1 The mechanics of payments

Enquiries made by the study team suggest that on both the Commission and Member State sides, the mechanics of payments into the EU budget function very well and do not give rise to problems of any consequence. There are two routine monthly payments from Member States covering amounts due for (first) the VAT resource, the GNI resource and the UK abatement (the UK, naturally, excepted from the last of these), and (second) for TOR revenues collected by customs administrations in the Member States.

Amounts to be paid by each Member State are established in the annual budgets negotiated from May onwards in the preceding year until final agreement by the budgetary authorities is reached late in the year. This then establishes the amounts due under the VAT and GNI resources, as well as for the UK abatement for the coming year to fund the agreed projected expenditure, and includes a projection of how much will be raised from the traditional own resources. These amounts are struck after calculating the UK abatement for the previous year and the consequent demands on other Member States to contribute to that

abatement. Hence these budgetary corrections mainly reflect actual contributions and receipts, rather than projections.

The amount transferred to the EU account is not calculated by the individual Member State but by the Commission which, formally, requests the money. The amount requested derives from projections established in a bi-annual meeting between the Commission and MS representatives in which the GNI and VAT projections are discussed. In this meeting, they compare Eurostat projections and MS projections and only discuss cases in which there is a real discrepancy ($>0.1\%$ of GNI or VAT which is usually not the case). Payments to the EU are made monthly, in two separate remittances. One twelfth of the annual payment for the VAT and GNI resources is due at the beginning of each month, then the amounts actually collected two months earlier (less the collection fee) from the traditional own resources are remitted around the 21st of the month. Thus, in February of year 't', a Member State will remit the proceeds of TOR from December of year 't-1', although sometimes sooner.

The Commission has the right to request that up to five-twelfths of the amount due under the VAT and GNI resources is remitted during the first quarter, so as to meet the 'front-loaded' demands for expenditure on agricultural policy. If this results in more than one twelfth of the revenue being called up in a particular month, the timing of the UK abatement payments is also adjusted in the same way.

If, as quite often happens, there is an underspend during a budgetary year, the Commission will either introduce a supplementary budget which results in a reduction in the GNI payments for the remainder of that year, or roll over the underspend to the next financial year, leading to lower calls on the GNI resource in the subsequent year. According to Member State and Commission officials consulted, there are no significant disputes about the amounts due, although periodic inspections by the Commission and the Court of Auditors of implementation by customs authorities may give rise to adjudications about the amounts collected. These disputes tend mainly to concern disputed payments by traders (for example, where a trader goes out of business) and are classed as 'B' accounts, distinguishing them from the more routine business in 'A' accounts. Disputes appear to be resolved straightforwardly, albeit not always quickly, with the findings nearly always in favour of the Commission.

Every possible deviation from the projections is corrected ex-post, and 'closing the books' occurs only four years after the end of the year (N-4). The Commission makes sure that the final numbers correspond to the actual macroeconomic data and that all calculations were done correctly. This explains why the finance ministries are quite relaxed about what they actually transfer each month.

3.2.2 The development of correction mechanisms

By the late 1970s, the net contribution of the UK had become unsustainable, mainly because of relatively low receipts from the CAP, but also because of the relatively high level of imports into the UK from the rest of the world that attracted tariffs. After a succession of *ad hoc* corrections in the early 1980s, formal agreement was reached in 1984 on an abatement of the UK net balance. In effect, the abatement means that the ex-ante UK gross contribution to the EU budget is reduced annually by an amount calculated as two thirds of the difference between the ex-ante gross contribution and expenditure in the UK, with other Member States having to increase their gross contributions pro rata using a key that is now GNI. The UK abatement has subsequently been somewhat attenuated, for example by agreement to forgo windfall gains from technical adjustments to the TOR and VAT resource (agreed for the period 1999-2006 and maintained in the current MFF), then by leaving out of the calculation cohesion spending in the recently acceded Member States (for the period 2007-13).

In the 1984 agreement, Germany was asked only to pay one-third of its contribution to the UK abatement, augmenting the burden on the other Member States. This 'rebate on the rebate' principle was then extended to three other Member States in 1999 for the 2000-06 period, and a further correction mechanism was to increase the fee paid to Member States for collecting TOR, a change that principally benefited the Netherlands. Further corrections were introduced in 2005 for the 2007-13 period: four different take-up rates for the VAT resource of 0.10% (the Netherlands and Sweden), 0.15% (Germany), 0.225% (Austria) and 0.30% (all other Member States); and reductions in the annual gross amounts to be raised from the GNI resource for the Netherlands and Sweden. Because all these revenue-side corrections

reduce the actual as opposed to ex-ante gross payments from the countries accorded them, there are now substantial (and, arguably, regressive) differences in gross payments as a percentage of GNI.

3.3 Findings from the survey of Member States

As explained in detail in Appendix 3, a questionnaire was sent to each Member State with the request that it be completed by officials actively engaged in EU budgetary matters. Respondents were asked, as far as possible, to reply from an expert, rather than a political perspective and were assured that their individual responses would remain confidential and only be seen by the survey team. In most Member States, the response was provided or co-ordinated by a finance ministry official, although the study team is aware that in many cases the responses were a collective effort involving input from other ministries. It follows that the responses, one per each Member State, do not necessarily reflect the formal positions of Member States, although the study team recognises that the sensitivity of the subject meant that few officials would depart much from known national standpoints. A further possible caveat is that responses drawn mainly from finance ministries might be expected to be somewhat more ‘conservative’ and/or inclined to focus most on traditional finance ministry concerns such as budgetary discipline.

Nevertheless, in assessing the existing system, the survey elicited responses to practically all the questions in *Part I* of the questionnaire from respondents in nearly all the Member States (24 out of 27). Hence the findings summarised here provide an authoritative overview of the how the respondents from Member States coming mainly from finance ministries assess the functioning of the current own resources system.

1. Mixed overall satisfaction with the current own resources system; At the most general level, the respondents from Member States’ finance ministries have expressed mixed satisfaction with the current own resources system. As shown in Figure 3.2, more than 80 per cent of them (20 out of 24) responded with a mark between 4 and 7 on the satisfaction scale between 1 (lowest) and 10 (highest).

Figure 3.2 Overall satisfaction with the current own resources system (respondents from all Member States)



2. The current own resources system meets well sufficiency and stability criteria but meets poorly simplicity and visibility criteria; The respondents from more than 80 per cent of Member States are of the opinion that own resources system performs ‘well’ or even ‘very well’ in meeting sufficiency and stability criteria and a similar proportion of the respondents consider that its performance is ‘bad’ or even ‘very bad’ in meeting *simplicity* and *visibility* criteria.

3. The sufficiency and stability criteria are, at the same time, considered by the respondents to be the two most important assessment criteria; It is not only that the current own resources system meets well sufficiency and stability criteria, but these two criteria are at the same time also considered as the two most important criteria that should be applied in assessing the existing own resources system. The second layer of criteria classified according to their importance for making this assessment consists of cost effectiveness together with horizontal and vertical fairness across Member States.

4. A strict balanced budget rule is considered appropriate for the EU budget; There is almost a consensus among the respondents about the balanced budget rule as specified in *Article 268 of the Treaty*. In support of this position, some respondents assert that EU does not have an institutional structure that would be politically accountable for running into deficits.

5. Generally positive attitude towards the existing institutional context and adoption procedure of the multi-annual financial framework; By responding with ‘well’ or ‘neither well nor badly’ to this question, a large majority of the respondents (close to 90 per cent) has expressed their generally positive attitude towards the existing institutional context and adoption procedure of the multi-annual financial framework. There is no major difference in this respect among the respondents from various groupings of Member States.

When commenting on different elements of the existing institutional context and adoption procedure of the multi-annual financial framework, the respondents have expressed general satisfaction with the *inter-institutional agreement* as it ensures a smooth budgetary procedure and budgetary discipline. In addition, a majority of the respondents considers *unanimity* as an integral element of the adoption procedure and that it should be maintained for reasons of sovereignty. As far as the duration of the multi-annual financial framework is concerned, a majority of the respondents is satisfied with the current 7 years period, though respondents from some Member States feel that it could be shortened to 5 years.

6. Views about the TOR are largely positive; The respondents have a largely positive view about the TOR as a revenue source for the EU budget. 20 out of 24 respondents consider this budgetary source as either ‘very positive’ or ‘positive’ and also as a desirable source of EU budget funding with the main argument being that TOR is the only real EU ‘own resource’ and clearly linked to EU policies. While it is tempting to ascribe this finding partly to familiarity with these resources, it could also be argued that a true own resource can command support. On the other hand, 4 of the respondents (all from the ‘old’ Member States and ‘net contributors’ groups), do not share this view, arguing that TOR is not desirable due to high administrative costs, insufficiency and the lack of horizontal fairness across Member States.

7. Views about the VAT Resource are generally negative; In contrast to TOR, the respondents have expressed a generally negative view about the VAT Resource. More than 2/3 of the respondents, and a similar proportion applies to the respondents from all four groups (NMS, OMS, net contributors, net beneficiaries) of Member States as well, consider the VAT source of the EU budget as either ‘negative’ or ‘very negative’ due to either high administrative costs and / or the fact that the VAT resource became obsolete after the introduction of the GNI based resource.

8. Views about the GNI resource are strongly positive; Similarly to the TOR, the respondents have a strongly positive view about the GNI resource. All but one of them consider this budgetary source as either ‘very positive’ or ‘positive’. The most frequently stated argument in favour of this budgetary source is its horizontal and vertical fairness across Member States followed by its simplicity. Several respondents have put forward some other arguments, including cost effectiveness, transparency, sufficiency and stability.

9. The GNI resource is appropriate to play a balancing / residual role in the EU budget; More than 80 per cent of the respondents, and a similar proportion applies to the respondents from all four groups of Member States as well, is of the opinion that it is appropriate for the GNI Resource to play a balancing/residual role in the EU budget.

10. Conflicting views among the respondents from various Member States groups about whether the current correction mechanisms to address perceived budgetary imbalances in national contributions into the EU budget are necessary / appropriate or not; A majority of around 70 per cent of all the respondents is of the opinion that current mechanisms to address perceived budgetary imbalances in national contributions into the EU budget are not necessary / appropriate. It is not surprising that there are significant differences in views among respondents from various groups of Member States with respect to this subject. While practically all the respondents in the ‘net recipients’ and ‘new’ Member States groups are against these mechanisms, there is a much higher proportion of the respondents from ‘net contributors’ and ‘old’ Member States groups that consider these mechanisms appropriate and therefore as a necessary part of the EU budget.

11. In case correction mechanisms are considered necessary, there are again contrasting views among respondents from various groups of Member States whether these mechanisms are needed in order to address shortcomings on the expenditure side of the EU; Respondents are split into two fairly equal groups with respect to this question. Roughly one half of them considers that correction mechanisms are needed in order to address shortcomings on the expenditure side of the EU budget, while the other half rejects this causal relationship. These differences at a general level become much more pronounced between respondents from Member States that are net contributors to the EU budget and those from net recipient Member States. More than 70 per cent of the former (8 out of 11) considers shortcomings on the expenditure side as the prime reason for correction mechanisms. For the ‘net recipients’ group, this proportion is much lower; 25 per cent (3 out of 12).

12. In contrast to agricultural expenditure, expenditure for cohesion policy is largely considered as a form of fiscal equalisation among Member States; While only ¼ of the respondents consider CAP spending as an equalisation mechanism, in the case of the cohesion policy this proportion is much higher – around 2/3. In both cases, similar proportions have been registered for respondents from all four groups of Member States.

3.3.1 Overall conclusion from the survey

The respondents have expressed mixed overall satisfaction with the current own resources system. Exactly one half of the respondents consider the system as not satisfactory (response of 5 or less on a scale of 10) while the other half consider the system satisfactory (response of 6 or more on scale of 10). The satisfaction level is somewhat higher among ‘net recipients’ than ‘net contributors’ to the EU budget – but no respondent showed any enthusiasm for the current system (only two respondents gave more than 7 on a scale of 10).

However, there is broad support for several elements of the current own resources system. There is a majority assessment that the own resources system meets sufficiency and stability criteria to be the most important criteria for judging the functioning of the system, a finding that is perhaps unsurprising given the strong weight of finance ministry officials in the sample. There is also a majority support of the strictly balanced budget rule, the own resources ceiling, as well as the existing institutional context and adoption procedure of the multi-annual financial framework.

The respondents, by contrast, are generally less satisfied with the structure of own resources, as only TOR and the GNI resource enjoy a majority support from the respondents. The views on the VAT resource are predominantly negative, as well as the views on the current mechanisms to address perceived budgetary imbalances in national contributions into the EU budget. These are not considered necessary or appropriate by a majority of the respondents.

3.4 Commentary

The strengths of the current system are that it raises the required revenue and assures the EU level of regular receipts. Despite the increasing opacity and complexity of the correction mechanisms, they too achieve their underlying aim of producing net balances that are politically tolerable considering a context of unanimous decision-taking. However, revenue sufficiency and cash-flow at the EU level are by no means the only yardsticks against which the current system should be judged, nor is the cash-flow balance the only credible means of calibrating net contributions/receipts to/from the budget, let alone the EU overall.

Several additional criteria are also germane, of which some relate specifically to the EU’s finances, while others concern wider aspects of EU membership and second order effects (such as the frequently-stated, if poorly-documented, suggestion that a sizeable proportion of spending on cohesion policy leads to demand for machinery or consultancy services supplied by companies in net contributor Member States. In what follows, the wider costs and benefits of EU membership⁶ are not addressed, because they are outside the terms of reference of the study and the focus is instead on budgetary flows alone, especially the revenue

⁶ A study carried out for the European Parliament by Gretschnann et al. (1998) analyses the wider questions.

side of the equation. It is, nevertheless, important to recognise that the benefits that flow from the single market and other common policies are likely to be of a higher order of magnitude than the fractions of a percentage point of GNI that are contested in the budget negotiations.

Three issues are discussed in relation to gross contributions, the first two of which reflect an underlying ambiguity about whether the EU should be seen as a fully-fledged tier of government or little more than an international organisation:

- The autonomy of the EU as a budgetary authority
- The visibility of the own resources and the implications for transparency and legitimacy
- Procedural or implementation difficulties, including the measurement of GNI

3.4.1 Autonomy of the own resources

Although it is an EU level body (the European Council, now formalised as an institution in the Lisbon Treaty) that has the dominant role in determining own resources, the outcome is essentially an inter-governmental bargain and the other EU institutions have virtually no autonomy in deciding on own resources, other than the Commission's right of initiative. Despite its formal powers of co-decision, the European Parliament has not so far had any meaningful influence on how the EU is funded and it is far from clear that the Lisbon Treaty will greatly change matters, even though the new article 311 will potentially give the EP a politically stronger position through having to give its approval to a future MFF. In an extreme case, which is not part of the current debate, a full autonomy would imply the European Parliament deciding on the tax base, the tax rates and the methods of collection, following the principles described above, all of which would represent considerable and politically highly-sensitive shifts from current arrangements.

3.4.2 Transparency and legitimacy

Concerns have frequently been articulated by the European Parliament about the lack of connection between citizens as tax-payers and EU budget decisions on both the expenditure and revenue sides. Much of this debate turns on what the EU itself is, rather than on the question of whether or not EU own resources are sufficiently visible to citizens. It is certainly the case that public knowledge of how much is contributed by the median citizen in each Member State is not widespread and that the mechanisms are poorly understood. Less scrupulous politicians and opinion leaders are, consequently, able to exaggerate the scale of EU funding and to portray the EU, unreasonably, as a budgetary leviathan, to use the terminology of Brennan and Buchanan (1980). The assertion that the EU costs each citizen the equivalent of a Big Mac a week is unlikely to be widely believed.

The rationale for seeking greater visibility for EU funding derives from an interpretation of the Olson (1969) fiscal equivalence principle that efficiency calls for governments at different levels to be responsible for raising the income to fund their spending. Is this just a theoretical proposition or does it have substance in the EU setting? Part of the answer turns on whether it is, in the end, correct to view the citizen as the tax-payer, or whether it is the Member State in aggregate that should be regarded as the 'unit' which belongs to the EU – a dichotomy that is, arguably, at the heart of the *federal* versus *inter-governmental* conceptions of the EU.

3.4.3 Procedural issues

There are some well-known complications in the system that have on occasion created problems, although a summary assessment would be that they have not been critical. Perhaps the best known is the so-called Rotterdam-Antwerp effect, the fact that goods enter the EU through the main seaports, notably on the North Sea, before being trans-shipped by other means of transport to destinations throughout the EU. In the first instance, the customs duties are collected by Dutch or Belgian customs, although the eventual consumer of the imported goods (and thus the citizen who pays the duty) may be in another Member State. This matters only insofar as it affects calculations of net contributions, whereas if consumption of goods from the rest of the world is seen as the tax base, it should not be an issue. The large collection fee now paid to Member States is also contentious, to the extent that it exceeds the true cost of collection, not least because customs administrations have substantial tasks other than pure revenue collection.

The ‘Rotterdam’ effect has seen claim and counter-claim, with the Dutch government (unsurprisingly) claiming that most of the income received from TOR should be counted as part of the Dutch net contribution. Figures for 2004 that Gelauff et al. (2005) say represent the Dutch government position suggest that the net Dutch contribution to the EU budget, using what they call an ‘accounting definition’ is 0.68% of GDP whereas the Commission figure is 0.44% of GDP. According to careful work by Gelauff et al., Dutch consumers, in fact, only pay for 30% of the goods imported into Dutch ports, with the balance made-up of transit goods and goods which are, in the first instance, paid for by Dutch citizens, but very quickly re-exported with little or no processing to add value. The latter category reflects the geographical position of the Netherlands as a distribution centre. As in so many of the disputes about net positions, there is no unambiguously ‘correct’ way of computing these balances, highlighting the political dimension to own resources.

It is also argued that VAT paid by tourists to holiday destinations inflates the apparent receipts of Member States that are tourist hosts, while diminishing the VAT yield of others (the ‘Marbella’ effect). Again, this complicates net contribution calculations insofar as citizens of countries that are home to tourists contribute to the VAT receipts of tourist host countries. If, however, the VAT resource were simply calculated by allocating a proportion of total VAT proceeds to the EU, without taking account of national yields, the objection would be diminished. Indeed, much the same argument may be used for about any type of tax instrument, and can easily be shown not to matter in national tax collection contexts; the same holds true in a single market.

3.4.4 The GNI indicator

With the GNI resource being the main financing instrument of the EU Budget, determining an appropriate measure of GNI is of significant importance. While statistical measurement of GNI is now fully standardized in the EU, the underlying exchange rate allowing the conversion of national wealth into a standardized measure is more controversial.

Currently, national GNI contributions are calculated on the basis of the nominal exchange rate between national currencies and the euro. This implies that if the nominal exchange rate deviates from purchasing power parity, different citizens in the European Union pay relatively less or relatively more of their actual purchasing power into the EU budget. This could be contested on the basis of equity considerations.

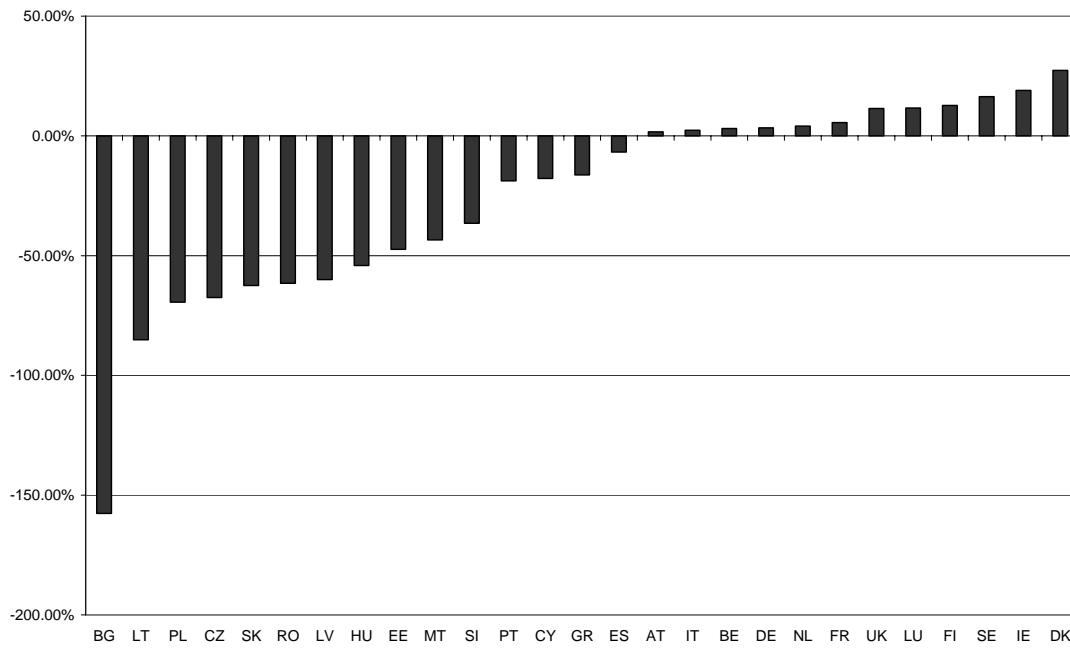
Against this background the idea has been floated to calculate GNI contributions on the basis of purchasing power parity standards (PPP). Such a standard takes into account the evolution of harmonized domestic prices. There is a commonly agreed method implemented by Eurostat to calculate those PPP rates, which are a key figure in the allocation of structural fund expenditures.

Although redistribution is a common theme to any changes to the current revenue side, it should be emphasized that the key political argument against the use of GNI-PPP instead of nominal GNI puts a very strong focus on this aspect. Figure 3.3 shows the percentage by which the nominal GNI changes when converted to PPP in comparison to current contributions to the EU budget⁷. Quite simply, because of their much lower price levels, using PPP would greatly increase the amount that the poorer Member States would have to pay towards the EU budget (and vice versa for richer Member States), and because the payment would be in nominal (not PPP) euros, it would rise as a proportion of nominal GNI.

⁷ The figure only considers the possible revenue side effects through changes in gross contributions, but it is likely that a switch to PPP would also have effects on the expenditure side.

Figure 3.3 Possible net effects on the revenue side of the budget of shifting from nominal to PPP values for GNI resource: saving in outlays

(based on percentage difference between GNI at current prices and at PPP as a proportion of GNI at current prices, 2007)



Source: Eurostat

4 Options for the future

The 2004-06 round of negotiations amongst national governments, the EU Commission and the EU Parliament over the medium-term financial perspectives for the period 2007-2013 aroused widespread dissatisfaction across the political spectrum. These objections are above all political, in contrast to the somewhat more supportive view derived from our survey about the technical aspects of funding the budget. Those in favour of more political integration within the EU, and therefore also more common policies with adequate financing, are frustrated by a budget whose size, as measured by the share of EU GNI it represents, has been shrinking slightly over the past decade and is planned to go on decreasing, to fall below 1% to reach 0.94% of GNI in the final year of the current MFF (2013). At this level, there will be a margin of 0.3% of GNI between the budget – if the allocated money is spent in its entirety, which often it is not – and the own resources ceiling; to put it another way, fully a quarter of the agreed limit will be unused. Those who would like the EU budget to remain relatively small, but would like to see its expenditures being reoriented, away from redistribution and agricultural support mechanisms and in the direction of more growth-friendly common policies, such as R&D, have had to accept expenditure inertia and the demands of countries benefiting from current expenditures. In addition, a logic of ‘net national contributions’ has tended to blur all policy issues and deprive all other stakeholders of any saliency in intergovernmental negotiations over the EU budget.

The dissatisfaction was such that, at the very moment when they were reaching agreement on a budget nobody liked, all players were calling for a mid-term review in which all aspects of the EU budgetary procedures, expenditures and financing devices, would be discussed afresh. In particular, proposals would have to be made by the EU Commission regarding a possible reform of the budget’s financing, with the aim of equipping it with new ‘own resources’, in the spirit of what the founding fathers of the European Community had in mind when designing the initial funding mechanisms for the common budget, back in the late 1950s and early 1960s. In its June 2006 *Report on the Council decision on the system of the European Communities’ own resources* (EU Parliament, 2006), the Parliament explicitly makes the current system of national contributions responsible, at least in part, for what it regards as the unsatisfactory functioning and outcome of the recent European budgetary negotiations: ‘...the aim of such a review should be to reach agreement on a new, comprehensive financial system ...’, and pointed out that, in particular, the system of own resources as well as the expenditure side needed to be reformed urgently *in order to avoid the same painful experience of national bargaining for the next financial framework.* (Amendment to Art. 5, emphasis added). That the European Parliament expressed such a strong position on the necessity to reform the budget and its funding should not come as a surprise: indeed, the long tradition of Western representative democracy has been built on the principle that the power to tax is an essential ingredient of democracy, and should be exercised by the elected Parliament.

Unlike the expenditure side of the budget which is subject to wide-ranging pressures for change, extensive soundings taken in the course of this study suggest that there are many stakeholders who are content to leave the own resources element of the revenue side unchanged apart from some relatively uncontroversial simplifications. This does not mean that the flaws in the revenue side are not acknowledged (for example, survey results reported by Szemler and Eriksson, 2008⁸, suggest a significant proportion of respondents are unhappy with the existing system). But the impression obtained is that the political capital that will need to be invested should be concentrated on securing reform of the expenditure side. This stance is, above all, underpinned by the fact that the current arrangements ensure that the EU has sufficient and stable revenue, while adapting the total volume of funds collected to total annual expenditure. The latter is important due to the Treaty obligation to balance the budget. The system is also considered to be relatively equitable, as every Member State would contribute, before any corrections, approximately the same percentage of its GNI to the EU budget.

Yet the current system of financing also has its weaknesses: it is complicated, un-transparent, full of corrections, and also corrections of corrections. The manner in which corrections are implemented means, too, that the relatively more prosperous Member States which receive corrections, pay lower shares of

⁸ The survey is based on responses by researchers and policy-makers, but (as the authors clearly state) is very far from being representative and thus has to be treated with considerable caution.

their GNI into the budget than do the least prosperous Member States, resulting in a perverse relationship between ability to pay and gross payments. While this is offset by the geographical pattern of expenditure, it causes evident resentment and has cash flow implications for national budgets. A further strong criticism is that because funding relies increasingly on the contributions of Member States, the EU's budget resembles the financing of an international organisation such as the UN, rather than an economically and politically integration Union. Consequently, the challenges that have to be confronted have to do with the political dimensions of the budget, on the one hand, and the messiness of the correction mechanisms, on the other.

The political and constitutional arguments for change are well articulated in the Lamassoure report (EP, 2007) in which the point is made that a funding system with so high a reliance on the two inter-governmental transfer resources (VAT and GNI) is open to serious objections. The report notes that the system:

- 'departs from the provisions and the spirit of the Treaty of Rome [and]
- points out that the very existence of the European Union has brought about an increase in intra-Community trade and an increase in the Member States' "wealth"
- for which reason the EU is fully entitled to equip itself with a system of genuine own resources instead of one fed by national contributions' [paragraph 1].

The report goes on to argue that 'that the current system of own resources based on Member States' contributions is both unfair to the general public and anti-democratic, and does not help to highlight the commitment to European integration; furthermore, such a system, since it makes the contribution to the European Union be perceived as an additional burden on national budgets, does not provide the Union with sufficient funds for all its policies due to the current budgetary deficits, especially those of the larger Member States' and goes so far as to express 'fears that this might be the beginning of the destruction of the values that have characterised the European Union's success over the past 50 years' [paragraph 4]. It also asserts that there are problems in technical terms that bedevil the calculation of net positions, such as the 'Rotterdam effect' and flaws in the GNI data used to calibrate calls on the GNI resource.

Not unreasonably, the report refers, too, to the increasingly unedifying spectacle of the haggling when the multi-annual budget settlements are reached, pointing out 'that, of the 46 articles in the conclusions of the Brussels European Council of December 2005 determining expenditure on new Heading 1b – Cohesion for Growth and Employment, a full 20 are "Additional provisions" handing out "Christmas presents" freely to various Member States or regions' [paragraph 15].

While acknowledging that there are reasons for rebates and for a generalization of correction mechanisms, the report suggests that this is a blind alley, concluding that 'generalising the rebate even when accompanying it by a ceiling for the net budgetary balances would be a double mistake since it would only strengthen the anti-communitarian character of the system and cement the short-sighted approach of a quantifiable "juste retour"' [paragraph 19]. For this reason, the report 'insists that the only possible solution is the abolition of the net balances system once and for all in parallel with a reform of the pattern of expenditure; [and] emphasises that what sets European spending apart is precisely its added value based on the principle of financial solidarity' [paragraph 19].

4.1 Overall approaches to reform

Two general approaches can be envisaged for the overall reform of the own-resources system.

- The first would be to find ways of simplifying the existing system, while retaining its broad character. What has been proposed in this context is either the replacement of the VAT-based resource with the GNI resource (the argument is that the former does not bring any substantive benefits to the existing system as in its current form it is very similar to the GNI resource) or the replacement of both traditional own resources and the VAT resource with a larger 'fourth' GNI resources. The first simplification has been proposed by a large number of Member States and is reflected in the views expressed by the respondents to our survey. Similar proposals were put forward also by Finland in

2004⁹ as well as by the recently published Heinemann (2007) report. Consolidating the VAT resource and the GNI resource into a single ‘national contribution’ could be justified by the attrition of the former, with a projected share of the total funding barely in double figures, and the fact that it is de facto a GNI resource anyway. Given the current administrative arrangement of a regular monthly payment from national sources covering VAT, GNI and contribution to the UK abatement, this sort of change would be welcomed by many Member States because it would remove the need to compute and agree a separate VAT component.

- The second approach for reforming the own resources system would be a more comprehensive reform which would include the introduction of new tax-based resource(s) at the EU level. This approach has been canvassed by the European Commission through its 2004 own resources report and by the European Parliament through the Lamassoure (2007) proposals. Both proposals argue in favour of introducing an EU tax from 2014. The Lamassoure proposals are for a reform that would be implemented in two-stages, comprising an initial transition to funding from a GNI-based resource and the TOR, but its subsequent replacement by a tax-based system, but the clear objective is comprehensive reform. This approach was strongly rejected in a report produced by Heinemann et al. (2007), citing its likely extensive distributive consequences and the prospect that they would lead to new calls for compensation. In the responses to the survey conducted as part of this study, the majority of Member State officials that provided responses to the relevant questions also rejected a shift to tax-based funding.

Whatever overall approach is taken, it will have to address the issue of excessive net budgetary positions as well. Although, from the viewpoint of EU budget reform, there is no doubt that the best solution would be the complete elimination of all correction mechanisms, it makes sense to prepare for a ‘second-best’ solution which would nevertheless require an instrument or mechanisms to address this problem. There are two main options. The first, already well-developed solution is to have correction mechanisms that ‘compensate’ Member States that are agreed to receive too little ‘money back’, while a second (more contentious) approach would be to establish a procedure to determine net budgetary positions at an early stage in negotiations.

The political challenges touch on diverse issues, but are also prone to being somewhat amorphous. They are summed up in the third set of the questions relating to the revenue posed in the Commission’s September 2007 consultation paper in terms of ‘the relationship between citizens, policy priorities, and the financing of the EU budget’. This relationship is a complex one that cannot be divorced from much broader questions about the evolution of the Union itself and about the balance of power between the Member States and the Community institutions. An especially awkward question is whether what is, in effect, the power to tax should be held exclusively by the Member States or shared with the Community level. A complementary challenge is accountability. In a recent article, former Chancellor Schüssel (2007) recalls a speech he made to the European Parliament in the first month of the Austrian Presidency in which he stated:

“I am now going to say something that not all of you will agree with: Europe needs more self-financing. We cannot continue to carve everything that we need for Europe out of the national budgets. It could end in that uncomfortable tension between net payers and net recipients. Greater self-financing is maybe not popular, but necessary”.

While recognising that these debates remain very lively and are unresolved, the purpose of this chapter is to explore potential new resources, rather than to ask whether or not the approach makes sense at all, and to review the arguments for and against different approaches to net balances. Over the years the search for new own resources has given rise to examination of a broad range of possibilities. None is ideal, but

⁹ According to this proposal, the own resources system would change in the following way. While traditional own resources would stay in place, the VAT resource in the current form would be abolished, as it is only a mathematical basis for calculating the national contributions. The balancing source would be the GNI resource, taking GNI shares as the basis for the Member States’ contributions to the own resources system. The UK rebate would be progressively phased out by the year 2013.

several have sufficiently compelling attributes to be serious contenders. The section considers some general issues.

4.1.1 General considerations

A number of constitutional provisions affecting the EU budget inevitably affect the scope for reform of the revenue side. The need for unanimity for the own resources decision and for the MFF tends to interact with the focus on *juste retour* in shaping Member State positions. In practice, it means that the EU is unable to exercise budgetary autonomy. This may be welcome to proponents of public choice arguments about the ‘Leviathan’ tendencies of government, but has the corollary that the EU level then lacks autonomy in its political capabilities as a consequence of its inability to levy taxes.

In addition, the obligation to balance the budget implies a need for a flexible funding instrument or, in its absence, a means of allocating any budget surplus or deficit among the Member States. While there might be normative arguments to be had around whether or not balancing the budget is desirable, the constitutional position is unambiguous. The own resources ceiling is a further important consideration, insofar as different funding options would be needed depending on the scale of the revenue requirement, so that any future decision to raise the ceiling would have ramifications for the mix of resources.

With public expenditure in the EU averaging some 40% of GNI, European citizens are used to transferring a significant share of income to government and tax authorities have drawn on a wide range of tax instruments to raise the required revenue. The structures of national tax systems do, however, vary considerably, reflecting the evolution of these systems and various influences on national preferences. The main issues are as follows.

Tax base

A first over-arching question is whether any future ‘tax (or non-tax resource) for Europe’ should be drawn from a particular tax base which might be any of:

- Personal income
- Corporate income
- Expenditure
- A designated sector of economic activity
- Property or land
- Wealth
- Labour

Some tax bases are not promising. Taxation of labour is already considered to be too high in the EU and also has deeply political connections to social policy. It can, therefore, be swiftly ruled out. Property taxes are usually assigned in the first instance to local governments and, in any case, do not represent a high proportion of total taxation. Wealth taxes are either low or not imposed in most Member States at present and the main component of wealth, in any case, tends to be linked primarily to house ownership for most citizens. This suggests that a tax for Europe would have to come from the first four categories which are scrutinised in more detail in later sections of this chapter.

Sufficiency

Underlying much of the debate has been a presumption that - especially as the funding requirement is relatively low in relation to aggregate taxation, at around 1% of GNI - the search should be for a single resource. However, this need not be set in stone. A single new resource would have the merit of simplicity, enabling citizens to connect what they pay directly to EU spending. But it could also mean greater volatility in receipts or a narrower incidence than if a range of resources were used. An open question is whether the choice of resource should be predicated on the budget remaining within the existing own resources ceiling of 1.24% of GNI, or whether to anticipate a significantly larger in the long-term. Equally, many candidates have a potential yield substantially higher than would be needed to fund

the EU's expenditure, raising the question of whether there would be advantages in designating a resource with a higher yield than is likely to be needed, the corollary of which would be the necessity of a formula for redistributing any surplus.

A linked issue is whether a 'shared' tax would be best achieved by piggy-backing on an existing tax by adding a surcharge to a national tax (VAT is the obvious one in this regard) or whether, instead, the tax should belong to the EU level in the first instance. For many potential resources, surcharges on substantial national tax bases (notably income taxes or expenditure taxes) may be the only real option. Revenue sharing is a characteristic of several Member State fiscal systems, including Austria, Belgium, Germany and Spain among EU 15, and several of the EU-12. Treisman (2006), Oates (1999) and others make a persuasive case that where revenue is shared in a way that allows sub-national government to obtain its share of the marginal unit of tax raised, it will have properly aligned incentives. Whether these arguments have much salience for the EU is more dubious, since many of them relate to levels of corruption and to forms of competition between sub-national governments that are not at issue. A further complication is that the sub-national level may co-own some existing taxes.

Collection

To avoid the criticism of adding to administrative costs (as well as forestalling more political concerns about transfer of competence), there would be obvious advantages in leaving collection with Member States, but to do so would water-down the connection between the citizen and the EU level budgetary authorities. Here, however, issues about the reliability of collection might arise and the fact that there are still regular inspections of Member State practices in collecting TOR, most leading to adjudications in favour of the Commission, suggests that collection at EU level should not be excluded.

Setting of rates and coverage

Perhaps the most contentious aspect of any conceivable resource for Europe would be how the rate and coverage should be set, because it is in this domain that political economy considerations would be most prominent. Hitherto, the European Council has, in effect, been the sole arbiter in deciding on own resources and how they are calibrated, notwithstanding the formal competence of the European Parliament for budgetary matters. It is also very clear that many, if not all, Member States are unwilling to allow the European institutions a substantial say in taxation, pointing to two issues that arise. The first is whether there would be any autonomy for the European Parliament (or the Commission) in deciding on the rate or coverage of any resource assigned to finance the EU budget, and the second is whether, there would ever be any political space for the European Parliament to influence, or even vote on, decisions on altering the mix of own resources. Indeed, one of the reasons that the Member States like the GNI resource is that it effectively maintains the power to tax at the national level. Plainly, these are more profound questions about the nature of the EU than just about how best to fund the budget.

4.2 How to move forward

A possible shift to 'true' own resources calls for a range of choices to be made.

Step 1

The first step is determining how much needs to be raised from any new resource. If the EU budget remains within the current own resources ceiling of 1.24% of GNI and on the assumption that the TOR continue to be assigned to the budget and to raise about 0.10-0.15% of GNI, the maximum that new resources would be required to raise would be around 1.1% of GNI. Retention of any form of national contribution would further reduce the required yield of new instruments, whereas any increase in the own resources ceiling without retaining the national contribution would necessitate a much higher yield from new resources. In the short-term, a decision might be to aim for 0.25% of GNI of new resources, but in the most radical of scenarios to replace all of the national contributions.

Step 2

In a second stage, the task is one of deciding how to go about selecting resources. In this regard, a first question is whether to assign a resource in its entirety to the EU budget (as is the case with TOR, notwithstanding the fact that Member States are now entitled to a 25% collection fee), or whether the

resource should be shared with other levels of government, notably the Member State level. A major advantage of assigning a resource in its entirety to the EU is that this largely avoids problems of ensuring that the burden falls where it is intended to fall. To give a simple example, if the EU were funded by a poll tax and that tax were set at a harmonised rate of ‘n’ euros per citizen, there would be complete certainty about how much each citizen would pay towards the EU. It is exceedingly hard to envisage circumstances in which a poll tax would ever be used, but it illustrates the point.

However, when rates and coverage of funding instruments are set at Member State (or sub-national) level and the proceeds shared between the EU level and other tiers of government, differences in effective tax burdens among citizens can arise purely because of the Member State in which they are resident. Among the main reasons are, typically, differences in coverage arising because of allowances or exemptions, rates (including resort to special or reduced rates), evasion or avoidance, and possible fluctuations in exchange rates for those countries not in the euro area. Unless there is complete harmonisation of a shared resource, the likelihood is that it will become necessary (as with the existing VAT resource) to adjust it so as to offset any such differences. Such an adjustment typically alters the underlying properties of the resource in ways that can affect its attractiveness for funding the EU budget.

It should be stressed that these problems are common to *any* resource shared between levels of government where there is not complete harmonisation across Member States. Given the extreme sensitivity around the issue of tax harmonisation, the implication is that any proposal to share one of the existing substantial tax bases with the EU level will be harder to justify than complete assignment of an instrument to the EU level. One of the most frequently canvassed resources to fund the EU level, modulated VAT, is inevitably going to be subject to this problem, even though it generally emerges well in assessments of appropriate resources.

The second main challenge in *step 2* is how to go about deciding between different resources, as discussed in section 2 above. The approach previously adopted test a proposed resource against a range of desired selection criteria, with the aim of determining how well each criterion is fulfilled.

Step 3

With an approach to appraisal agreed, the merits of particular resources can then be appraised. Here again, previous work has established a degree of common ground, with a number of potential resources regularly advocated. In many respects, there is little new to add to these previous assessments. The most recent such appraisal was that of Lamassoure (2007) who identifies as the four most promising EU own resources VAT, excise duties on motor fuel or other energy taxes, excise duties on alcohol or tobacco, or taxes on corporate profits. Three of these largely coincide with the conclusions of the Commission’s 2004 own resources report (the exception being alcohol and tobacco taxation) and, more generally, are among the ‘usual suspects’. The options are explored in more detail below.

It should be noted that Lamassoure emphatically rejects the idea of a ‘new’ tax for Europe, a position that reflects his extensive consultations with national parliamentarians. He reports a general rejection of the idea of a genuine European tax or of a transfer to the EU level of a power to tax, but notes more sympathy for the idea of an EU share of an existing tax. In this regard, the responses to the survey are also instructive and are summarised in section 4.3

4.2.1 Criteria for selecting resources

In the many exercises that have been carried out for the purpose of selecting resources, much the same criteria emerge, albeit with some differences of emphasis and, indeed, of labelling. Thus, Cattoir (2004) distinguishes budgetary criteria (sufficiency and stability), efficiency criteria (visibility, operating costs and allocative effects) and three categories of equity criteria: horizontal, which refers to tax-payers in identical circumstances being treated in the same way; vertical which refers to the degree to which any funding instrument redistributes income among citizens of different levels of income; and fair contributions which relates to the Member State rather than the citizen. Begg and Grimwade (1998) distinguish between economic, administrative and political criteria, embracing much the same elements, with the last category notably encompassing a connection to EU policies as a desirable characteristic in addition to those itemised by Cattoir. In the report for the European Parliament by Lamassoure (2007) the list of criteria is almost identical to that of Cattoir, while the SEP/GEPE (2005) study also adopts the same

list, but probes deeper into how to interpret some of them. In particular, SEP/GEPE insists on the potential distortionary effects of national autonomy in tax setting as an important facet of optimising the allocative effects, noting the possibility of tax competition and of difficulties arising from taxes being accurately appropriated by Member States. Le Cacheux (2007), similarly, offers a different perspective by noting that revenue instruments that distort the allocation of resources may be justifiable if the distortion in question has positive externalities (often referred to as Pigouvian taxes).

In its most recent report on the functioning of the own resources system, the Commission (2004b) highlights seven criteria for assessing resources, the second of which (financial autonomy) is less prominent in the more academic lists, while the interpersonal dimensions of equity are not mentioned. They are:

- Visibility and simplicity
- Financial autonomy
- Adding to the efficient allocation of economic resources
- Sufficiency
- Administrative cost-effectiveness
- Revenue-Stability
- Equity in gross contributions

Although these lists of criteria suggest some differences of emphasis, they do not differ fundamentally and, indeed, all accord broadly with standard tax theory principles such as taxing according to ability to pay or designing tax systems so as to minimise distortions in the allocation of resources. Moreover, most of the forgoing criteria are general in the sense that they could be thought of as salient in any fiscal system. However, as Le Cacheux (2007) observes, there are also distinctive characteristics of the EU as both a political and budgetary entity that deserve to be taken into account. It is open to question, for example, which aspects of economic efficiency or equity matter and whether these should be seen as important criteria on the revenue side. These issues cannot be divorced from the size of the EU budget which, at its current magnitude of 1% of GNI is, it should be recalled, just 2.5% of aggregate taxation in the EU by all levels of government. Le Cacheux also points out that the EU budget is far from being a federal one and even falls well short of being the sort of 'pre-federal' one envisaged thirty years ago in the MacDougall report which discussed a central budget of around 2% of GDP, rising to 5-7%. In particular, there is very little that a budget on this scale can do to promote stabilisation or inter-personal redistribution in a way that federal budgets typically do elsewhere.

In addition, the apparent consensus in the lists does not greatly simplify the appraisal of potential resources for two further main reasons. First, it is highly improbable that any conceivable resource will fully meet all the criteria, and it follows that the importance attached to particular criteria will influence the overall judgment of the viability of any resource. Second, different stakeholders must be expected to have different preferences among the criteria, with the result that a resource that is favoured by one constituency could be unattractive to another for entirely coherent reasons. In this regard, the Commission's identification of financial autonomy as one of the seven criteria is explicable partly in political economy terms and it could be hypothesised that Member States could take exactly the opposite view that limiting the autonomy of the EU institutions is preferable, notwithstanding what is in the Treaty. In the same vein, the fact that the Commission list does not refer to equity between citizens can be explained partly by the fact that the small EU budget will, in practice, make little difference in this regard.

Pursuing the notion of the *sui generis* EU developed in chapter 2, it may be better to adopt criteria for EU resources that pay less heed to standard tax principles and much more to the distinctive attributes of the EU as a constitutional and budgetary entity, its competences and its policy priorities. Seen in this way, the traditional own resources are assigned to the EU level because they are derived from a common policy (the common external tariff) and because of the difficulty of assigning the proceeds accurately by Member State, but not because they (necessarily) score well on economic efficiency, equity or visibility criteria. As the 2004 own resources report observes, it is trade policy rather than pure revenue raising that determines the yield of the TOR, but once the money is raised it is logical to assign it to the EU budget. A similar reasoning could be deployed to assign other revenues which are the direct result of EU policies (such as

the monetary income of the European Central Bank or the proceeds of the auction of emissions trading permits) to the EU budget, even if these resources do not fulfil other criteria that well.

Other more specifically ‘EU’ criteria might include the issue of tax competition (see Le Cacheux, 2007, for an overview of the arguments) where there are two conflicting lines of reasoning. For some commentators, tax competition is seen as desirable so as to bring pressure on governments to curb ‘Leviathan’ tendencies to spend profligately. Other fear that tax competition will lead to a race-to-the-bottom in which Member State governments push taxation below optimal rates in order to avoid loss of competitiveness. Corporate income tax or taxes on savings income are two areas where such concerns may not only be valid, but also where a move to taxation at a higher level of government would help to avoid the problems by reducing the incentive for inter-jurisdictional competition. For corporate income, the sheer difficulty of attributing the income accurately by Member State reinforces the case for Europeanising the resource, although there are obvious ideological and political objections, likely to be especially vocal from those countries which have used a low, often flat, corporate tax rate as an instrument of economic development.

Linking potential new resources to an EU policy has an obvious political economy benefit that may facilitate change. Thus, a corporate income tax (CIT) and a carbon tax are promising candidates to become, either separately or jointly, ingredients of the reformed funding of an EU budget relying more heavily on genuine own resources. The main arguments in favour of these two tax instruments, compared to other tax sources of revenue relate to their strong compatibility with the common policies being pursued by the EU, i.e. the single market and, specifically for the second one, the fight against climate change. In addition, given the likely distributional consequences of each of these instruments when taken in isolation, combining the two may yield an attractive package, while making the internal market into more of a ‘level playing field’ for companies.

4.2.2 A methodological proposal

The key methodological point that emerges from this discussion is that any assessment has to recognise that there will be divergent opinions about the importance of different criteria, whether applied to individual elements (such as particular funding instruments) or to a system as a whole. As a solution to this problem, the study team has constructed a simple spreadsheet encompassing the range of criteria that have been used over the years to measure the attractions of different resources. These criteria have been loosely grouped into two main categories, presented summarily in box 4.1, and are intended to be comprehensive by including all previous exercises.

<i>Box 4.1 Criteria for assessing potential EU own resources</i>	
<i>CRITERION</i>	<i>Explanation</i>
<i>ECONOMIC CONSIDERATIONS</i>	
Economic efficiency/distortion effects	Does the resource affect only some sectors of economic activity, with adverse (or, in the case of Pigouvian taxes, favourable) allocative effects
Vertical equity in promoting redistribution	Ability to pay at the level of the citizen
Horizontal equity among equivalent citizens	Are individuals in similar circumstances treated equivalently
Fairness between Member States - GNI per capita	Ability to pay at the level of the Member State
Fairness between MSs - appropriability of revenue	Does tax collection at the Member State level fail to reflect the true incidence of the tax among MSs
<i>POLITICAL AND ADMINISTRATIVE FACTORS</i>	
Sufficiency of revenue	Does the resource raise enough revenue to cover all, or a sizeable proportion of the total needed

Stability as revenue source	Does the yield vary, notably over the economic cycle
Other administrative considerations	Any other issues, such as susceptibility to evasion, collection costs, need for revenue sharing etc.
Link to EU policy concerns	How well does the proposed tax correspond to policy domains in which the EU is prominent
Visibility and transparency to tax-payers	Will individual taxpayers be more aware that they are contributing to the EU when paying the tax
Autonomy for the EU level of government	Is the resource genuinely 'owned' by the EU and where does the 'power to tax' effectively lie?

As an empirical tool, the spreadsheet is intended to be a means for appraising the attractions of a particular candidate, but can also serve to assess a more extensive package of reform measures. It is simple in design, consisting of a score for each criterion and a weight to be attached to the criterion relative to others. The most important criteria are assigned higher weights and less important ones lower weights, and the weighted score for a criterion is then calculated by multiplying the score by the weight. Consequently, if a proposed reform scores only moderately highly on several important criteria and is average on others, it may still attain a higher weighted score than another that scores very highly on less significant criteria and average or below on the most important ones. Both the weights and the scores can be altered by the user, enabling any political preferences to be altered (by adjusting the weights) and any disagreements about how well a particular criterion is fulfilled to be reflected in the scores.

The reason for building in this flexibility is that it avoids imposing a rigid set of preferences that, themselves, become the focus of dispute. For example, the Commission's 2004 list did not include any reference to inter-personal equity (the horizontal and vertical equity criteria in the box), but does include financial autonomy which (as noted above) many of the other lists do not. If, as has already been suggested, it makes sense to focus attention on EU aspects of a proposed resource, then high weights would be assigned to the two fairness criteria, the last three criteria and, arguably, sufficiency, but little or no weight would be given to the equity or economic efficiency criteria. As explained in chapter 2, this means that normative factors dominate.

To guard against spurious precision, the spreadsheet has been set up initially with only an ordinal scale for scoring, but could readily be changed to give finer scoring. Similarly, additional criteria could easily be added, while existing ones can be nullified by setting a weight to zero. An additional feature is a scaling factor to reflect political economy sensitivity, in effect a form of adjustment intended to correct globally for the sensitivity of a tax: this is set initially to unity, that is no overall weighting. The spreadsheet is, manifestly, not sophisticated and is not intended to be used purely mechanically in choosing between options, and even in identifying a range of criteria there is a risk that it reflects the biases of the authors. But what it can do is to provide a means of disciplining thinking about the strengths and weaknesses of any proposed resource or reform and, thus, arriving at some ordering of these options.

This tool may be used to elucidate decisions on the financing side of the EU budget by relying on a procedure that is inspired by the 'veil of ignorance' proposed by such authors as John Rawls to make decisions, at the 'constitutional stage', about public policies: in order to avoid the exclusive concern for individual country's distributional consequences of the financing scheme. In this way, even a simple 'ready reckoner' can push decision makers to define and rank their preferences with respect to general criteria, taken from the literature and previous studies. Appendix 4 presents illustrations of the tool.

4.3 Findings from the survey about possible reform of the own resources system

The caveats about the survey expressed in chapter 3 apply to this Section as well. The survey responses have been provided by individual respondents, one per each Member State, largely from the circle of ministries of finance. Consequently the responses presented in this Section do not necessarily reflect the formal views of Member States, but rather reflect a finance ministry, technical, standpoint. An additional caveat is that there was a lower response to questions in the survey about future financing options, the main subject of this Section –than for questions assessing the performance of the existing own resources

system. This can at least partly be explained by the fact that several MS officials oppose the introduction of an EU tax (explored in *Part II* of the questionnaire), with respondents from many of these countries not offering answers to questions that address this subject. With these caveats in mind, the main findings about how the respondents assess possible reforms of the own resources system are as follows:

1. General support among the respondents for fiscal sovereignty, fiscal neutrality, link with the reform of the expenditure side and elimination of correction mechanisms as the key principles that should drive the possible reform of the own resources system both on a medium and long run; For the 2013+ period, the respondents are of almost unanimous (only 1 dissenter out of 24) that Member States should retain their full *fiscal sovereignty*, while for the 2020+ period this proportion decreases to a still high 80 per cent. This indicates that according to the respondents' views, even in the long term only a limited number of Member States is willing (bearing in mind existing directives that already constrain sovereignty, such as those that govern VAT or taxation of savings) to cede any more of their fiscal sovereignty to the EU level.

With respect to all other key principles for possible reform of the own resources system the responses were practically identical for 2013+ and 2020+ period. For both of these periods, a large majority of the respondents (around 80 per cent) is in favour of *fiscal neutrality*, meaning that the budgetary reform should not increase the overall budget burden for the citizen. In addition, a significant majority of the respondents (around 70 per cent) is of the opinion that *correction mechanisms* should be eliminated. A similar majority of the respondents from all Member States (again around 70 per cent) has stressed the need for reform of the own resources system to be *linked with reform of the expenditure side*.

2. Horizontal fairness across Member States, vertical fairness across Member States, sufficiency, stability, simplicity and cost effectiveness have been identified as the most important specific criteria that should drive the possible reform of the own resources system; As shown in *Table 1*, respondents have identified 6 specific criteria as the most important ones to guide possible reform of the own resources system, with each of them being assigned between 9 and 16 points (out of 100 points allocated among all possible criteria). These criteria are the following: (i) horizontal fairness across Member States – 16 points, (ii) vertical fairness across Member States – 13 points, (iii) sufficiency – 13 points, (iv) stability – 11 points, (v) simplicity – 10 points, and (vi) cost effectiveness – 9 points. While the two budgetary criteria – sufficiency and stability – have been identified as the most important ones when assessing the performance of the existing own resources system, the two fairness criteria are considered as the most important ones to be applied in the possible reform of the own resources system. This might be interpreted as indicating a strong dissatisfaction among the respondents with the correction mechanisms that are part of the existing EU budget arrangement.

There are some differences among the respondents from different groups of Member States with respect to the relative importance they assign to each individual criterion. For the respondents from 'old' Member States and 'net contributors' the single most important criterion is horizontal fairness across Member States. This clearly indicates a strong sensitivity of the respondents from 'old' Member States, many of which are also the largest 'net contributors' to the EU, about fair treatment with respect to contributions to the EU budget. On the other hand, the respondents from 'new' Member States and 'net recipients' assign to the cost effectiveness criterion a much higher weight than is the case for the respondents from 'old' Member States and 'net contributors'.

3. The preferred option for the reformed own resources system – both in the medium and long run – is the one combining TOR and GNI based resource. There is a consensus among the respondents that the two 'corner proposals' for the possible reform of the own resources system are not appropriate. The respondents have rejected both the for the system to '*remain unchanged (with the four existing funding sources)*' as well as the proposal for a '*system with its own fiscal resources (single / multiple), but with no balancing item – implying possible deficit / surplus*'. This consensus applies not only for the 2013+ period, but also for the 2020+ period.

The strong preference for the 2013+ period is A '*system composed of TOR and a GNI-based source (implying the end of the separate VAT resource)*'. Over 85 per cent of the respondents that answered this question (15 out of 17) have selected this system as their preferred one, with the remaining 15 per cent of the respondents (2 out of 17; one from "new" and one from "old" Member States) being in favour of a

'system based largely on a new single / basket of fiscal own resources (with the GNI resource as the balancing item)'. For the 2020+ period, the support for a 'system composed of TOR and a GNI-based source (implying the end of the separate VAT resource)' continues to be strong but is nevertheless a little lower than for the preceding period. Some 2/3 of the respondents that answered this question (9 out of 14) are in favour of this system also for the 2020+ period. As a consequence, the proportion of the respondents supporting the 'system based largely on a new single / basket of fiscal own resources (with the GNI resource as the balancing item)' increased to more than 1/3 (5 out of 14).

4. Respondents are generally not in favour of the possible introduction of a genuinely tax-based own resource (EU tax); Only around 1/3 of the respondents has expressed a favourable opinion on the possible introduction of a genuinely tax-based own resource (EU tax) to replace an existing resource or part of an existing resource. This proportion is twice as high among the respondents from 'old' Member States (around 40 per cent) than among the respondents from 'new' Member States (around 20 per cent) and much higher among the respondents from 'net contributors' (around 40 per cent) than from those ones coming from 'net recipients' (around 25 per cent). For the NMS, this finding may appear surprising insofar as they might gain to the extent that tax-based own resources might lessen the stress on juste retour, although it can equally be argued that the NMS might have more to fear from the proposed EU taxes most frequently canvassed such as VAT, carbon taxes or a corporate income tax.

5. If an EU tax were to be introduced (see general objection to this proposal in point 4), modulated VAT tax, excise duties on motor fuel and excise duties on tobacco and alcohol have been identified as the most suitable potential candidates (warning – responses provided by respondents from only about half of the Member States); The suitability of potential candidates for an EU tax has been determined by exposing each of these candidates to the 6 specific criteria considered by the respondents as the most important ones for the possible reform of the own resources system (see point 2) and by applying a specifically designed methodology to each of these candidates. The results show that modulated VAT and excise duties on motor fuel have met these 6 criteria best and are therefore considered as the most appropriate EU tax revenue candidates. They are closely followed by excise duties on tobacco and alcohol. Modulated VAT tax wins support because of the relatively high level of harmonisation among Member States in this area, as well as the tax's stability and visibility. On the other hand, support for excise duties on motor fuel is justified mainly on the ground of its stability as a budget revenue item. Here again, the findings may be partly attributable to the fact that these are the resources that have been put forward most often and shown in previous studies to be among the most suitable EU taxes.

6. The respondents are generally not in favour of a possible introduction of a non-tax EU budget revenue source; The respondents are generally sceptical about introducing non-tax based instruments as potential sources of EU funding. Within this general framework, a strong majority of the respondents has expressed its reservation about user charges (over 80 per cent) and also emission permits (over 70 per cent) as possible funding sources for the EU budget. On the other hand, the respondents are better disposed towards using ECB monetary income. Close to one half of them state that ECB monetary income should be considered. An assumption regarding this funding source is that a straightforward solution can be found for an equivalent contribution by non euro-area countries.

7. If a non-tax resource were to be introduced (see general objection to this proposal in point 7), ECB monetary income has been confirmed as the most suitable potential candidate (warning – responses provided by respondents from less than a half of the Member States); Appropriateness of potential candidates for non-tax EU budget sources has been determined by exposing each of these candidates to the 6 specific criteria considered by the respondents as the most important ones for the possible reform of the own resources system (see point 2) and by applying a specifically designed methodology to each of these candidates. The results show that ECB monetary income best meets these 6 criteria and is therefore considered as the most promising non-tax revenue candidate among the potential sources of EU funding.

8. With the presumption that elimination of all mechanisms for correction of budgetary imbalance would prove impossible, the respondents have expressed a cautious support for the introduction of a generalized correction mechanism; A significant majority of the respondents (around 70 per cent) is of the opinion that an important objective of the overall budgetary reform of the EU should be the

elimination of all mechanisms for correction of budgetary imbalances (see *point 1*). If this proves to be impossible, close to 60 per cent of the respondents would endorse the introduction of a generalized correction mechanism. Supporters of a generalised correction mechanism are more numerous among ‘old’ Member States (around 70 per cent) than among the ‘new’ Member States (around 50 per cent).

9. The respondents are strongly against an alternative approach for dealing with excessive budgetary imbalances; A large majority of the respondents (around 80 per cent majority) opposes a new approach in multi-annual financial perspective negotiation whereby an agreement about net balances would be reached in the first phase of the negotiations, and only then, in a second phase, would negotiations about the broad allocations of spending under different headings on the expenditure side of the budget start.

10. If any new equalisation mechanism is to be established, it should, according to a large majority of the respondents, be located on the expenditure side of the EU budget; A large majority of the respondents (over 90 per cent) does not support any equalization mechanism on the revenue side of the EU budget (thereby partly or wholly replacing the implicit redistribution arising from some of the existing EU policies, such as cohesion policy or the Common Agricultural Policy) with an argumentation that the own resources system should be simple and transparent, an imperative that would be compromised by the introduction of this kind of equalization mechanism. All equalization mechanisms should be done on expenditure side.

4.3.1 Overall conclusion from the survey

The second part of the survey deals with the possible reform of the own resources system. The respondents are inclined to changes in this regard, although the possible introduction of a new resource attracts little support from the respondents who seem to favour simplification and a reform of the mechanisms for correction of budgetary imbalance. There is almost a consensual view that Member States should retain fiscal sovereignty as a key guiding principle of the possible reform.

A large majority of the respondents considers that a reform of the own resources system in the short- or medium-term (in the 2013+ period) should lead to a system combining only TOR and GNI based resources. In the longer-term (in the 2020+ period), however, the support for a system based on genuine own resources (either a single resource or a basket of resources) increases. At the same time, there is a clear shift from concerns related to stability and sufficiency towards fairness. It seems that an implicit concern of the respondents is that the elimination of correction mechanisms would, ultimately, be facilitated by a financing system based on genuine own resources. Modulated VAT, excise duties on motor and excise duties on tobacco and alcohol have been identified as the most suitable candidates for a possible EU tax, even though few respondents support their actual introduction. The respondents are also generally not in favour of the possible introduction of a non-tax EU budget revenue source and only ECB monetary income achieved the support of close to a half of the respondents.

Starting from the presumption that elimination of all mechanisms for correction of budgetary imbalance would prove impossible, the respondents have expressed cautious support for the introduction of a generalized correction mechanism to replace current mechanisms. However, the respondents are strongly against an alternative ‘ex-ante’ approach for dealing with excessive budgetary imbalances, and also oppose the introduction of explicit financial redistribution in the form of equalization transfers on the revenue side of the budget. Many of the findings reported can be interpreted as favouring the status quo, especially in maintaining the power of the Member States over fiscal matters. It follows that some of the proposals for more radical change put forward in later chapters of this report would be likely to encounter significant resistance, to the extent that the view of the officials reported here anticipate the likely positions of the Member States.

4.4 Towards a systemic approach

When thinking about the future of the EU budget funding scheme, one has to face an apparently insurmountable contradiction: whereas the current system, in which national contributions based on GNI play the dominant role, is effectively functioning to the satisfaction of civil servants in charge of its

operation in the Member States, and probably also of many Member States' governments, it has been heavily criticized by the European Parliament (in particular, the Lamassoure Report, 2007) and by a number of observers for being the major source of bad decision-making and poor orientations of the EU budget, especially in the latest version of the medium-term financial perspectives (2007-2013). As is apparent from the results of our survey, the current combination of the TOR and direct transfers from Finance Ministries is an appealing one to many officials, certainly in the short-to medium-term. This is hardly surprising, in view of the general tendency among civil servants, especially in finance ministries, to prefer the status quo, and of the simple and smooth operation of the current funding scheme from an administrative point of view. The very nature of the GNI contribution also implies that it scores very well in terms of revenue sufficiency and stability, by construction. But then, why change it?

4.4.1 The logic of reform proposals

The case for shifting to an alternative resource has to be made predominantly on grounds other than revenue sufficiency or stability. There are various possible avenues for building the case for reform, depending on the emphasis one wants to put on the different criteria that ought to characterize the financing side of a budget. These may consist primarily of the various political lines of reasoning about autonomy, transparency and accountability, and find an echo in much of the theoretical analysis of multi-tiered fiscal systems, as well as in the current practice of most such systems, as summarized in the previous sections: raising what you spend remains a sound maxim. It clearly comes out of some of the literature on 'fiscal federalism'. This would meet the above mentioned criteria of sufficiency and stability, but in addition, might improve the visibility of the financing scheme, hence accountability vis à vis citizens. Indeed, although the current system may be judged to be very visible for decision makers, it is totally opaque for citizens, a vast majority of whom do not have the faintest idea of what the size of the EU budget is – and usually greatly overestimate it. Of course, not all alternative financing instruments would have much greater visibility to citizens themselves; in particular, a number of the tax instruments considered below may not possess this quality¹⁰. But they would make the funding scheme more visible for citizens' representatives, in the European Parliament at least, especially if the rate had to be voted, giving rise to public debate and possibly leading to clear campaigning along such lines in European elections.

A political argument that could be especially telling, though highly disputed, is that the current system leads inexorably to the Member States caring more about net balances, and thus more about where the spending takes place, than the purposes for which EU spending takes place. As box 4.2 shows, there are both technical and conceptual reasons for criticising the way net accounting balances are used in budget debates. Instead, it can be argued that more focus is needed on economic efficiency and consistency with the overall objectives of the EU, as defined in the policy priorities, such as the completion and smooth functioning of a non-distorted internal market, the Lisbon agenda, the fight against climate change by reducing emissions of green-house gases, etc.

Box 4.2 Net balances: a meaningless notion?

The notion of *net balances*, or *net national contributions* that currently dominates budgetary negotiations in the EU and is being used by national governments to assess their own 'share' of the European cake rests on highly arbitrary conventions that make it almost devoid of any economic meaning. Of course, all accounting concepts are based on some sort of conventions; but usually, these are grounded in economic analysis, which is not the case for 'net budgetary balances' (Le Cacheux, 2005b).

Two sets of considerations may be used to illustrate this arbitrariness: difficulties arising from accounting principles; and economic analysis of incidence and the allocation of ultimate benefits.

¹⁰ A recent paper by Osterloh, Heinemann, and Mohl (2008) argues that most such tax instruments would indeed not improve visibility, and they come out strongly against the introduction of an EU tax, mostly on the grounds of distributional impact. But, as argued below, this conclusion, which in their paper is not well supported, should not deter from moving in the direction of using such instruments for funding the EU budget.

1. *Arbitrariness in the country allocation of revenues and expenditures*

It is well known that the assignment of the burden of revenue to the places where revenue is levied is in general meaningless. The endless controversy surrounding the *Rotterdam effect* or ‘gateway effect’ for customs duties is the clearest illustration of such difficulty; similar, though generally less acute problems arise with respect to agricultural levies, and would also plague future negotiations if other own resources were adopted.

On the expenditure side, geographical breakdown is equally problematic. The case of EU administration expenditures, included in the calculation for the British rebate, but excluded from other official calculations of net balances, is the clearest: including them makes Belgium and Luxembourg look like very big net gainers. A similar reasoning can in principle be applied to any of the expenditure items in the EU budget that are not pure redistribution - not much in the current state of affairs, but potentially much more if and when the budget reform is effectively decided.

Finally, from a purely presentational point of view, the magnitude of net national balances appears very different according to whether it is set in absolute, euro amounts, or whether it is calculated as a ratio of the country’s GNI, for instance, dwarfing the ‘net contributions’ of countries like Germany or France in particular.

2. *Incidence and the indeterminacy of geographical allocation of ultimate benefits*

The idea that the economic burden of a tax is fully borne by the taxpayer has long been demonstrated to have usually no foundation: in integrated markets, with varying degrees of competition on goods, labour and capital markets, the incidence of each levy is almost always distributed amongst the various agents, and the share effectively and ultimately borne by the taxpayer is seldom the apparent tax bill.

The same is true for expenditures, though the reasoning varies according to the nature of the expenditure item. For European public goods, the joint provision and funding has been demonstrated to be a positive-sum game, and the allocation of benefits to the various members of society is, in principle, impossible, at least for pure public goods; because of non-rivalry in consumption, the more generous the provision, the more everybody benefits from it, without distinction. With regard to many other expenditure items, though they do not possess this pure public good character, the assignment of benefits is also difficult: hence for instance, who ultimately benefits from mobility grants to students? The students themselves, their country of origin if or when they return, the university of destination? Probably all, in varying proportions. And what about price support in agriculture? Does it benefit the farmers? Or the consumers? Or indeed the suppliers of inputs to agriculture or landowners?

Finally, even when considering pure redistribution, it is not so clear that benefits accrue exclusively to recipients. Take the cohesion and structural expenditures: they induce contracts with suppliers from countries other than recipients; and they make for an increase in demand in the latter, which also benefits the economies of other partner countries, who face larger demand for their exports.

With a reformed budget, both the expenditure side and the revenue side of the EU budget are likely to comprise even more items that cannot meaningfully be allocated to individual Member States. This is the reason why we advocate a very limited and cautious use of the notion of ‘net budgetary balances’ as a basis for corrections, and why we recommend that, if they are deemed unavoidable, the aims should be for them to be progressively dismantled.

Indeed, it can be argued that the current state of affairs with respect to taxation of certain bases – corporate income, or household interest income, for instance—is not satisfactory from the point of view of a smooth and non-distorted functioning single market and that moving these tax instruments to the EU level would be an important step in the direction of having a ‘level (and fair) playing field’ for firms and individuals. Alternatively for other tax instruments, such as carbon or other environmental taxes, or flight duties, it may be argued that having a common instrument would allow the introduction of a uniform ‘positive’ or ‘beneficial’ (Pigouvian) distortion in relative prices. Thus, a generalized carbon tax, imposed on all, or at least most, sources of carbon dioxide emissions – or even better, though more complex, on all sources of greenhouse gas emissions - would alter relative prices and costs. Hence there would be incentives for private producers and consumers to alter consumption patterns, with results that have sometimes been termed as “double dividend”, though it should be borne in mind that the more effective these instruments are in abating pollution the less revenue they bring. A carbon tax could then be articulated with the existing market for emission permit trading, in such a way as to bring about more revenue for the EU budget (see below) and a coherent – and probably rising - pricing mechanism for carbon emissions.

Might a reform of the funding sources of the EU budget help in moving the debates away from exclusively distributional considerations and a purely accounting logic of ‘net national contributions’, and more in the direction of fairness, European added value and efficiency considerations? For this to happen, one cannot simply assume that Member States governments will suddenly become totally unselfish and enlightened by the vision of the ‘common good’, hence suddenly willing to ignore all outcomes of the EU

budgetary process other than efficiency in the pursuit of collectively decided goals. Indeed, one major lesson from the literature, both theoretical and applied, on multi-tier governments concerns the expenditure side of the budget, and more precisely the assignment of competences in decentralized settings: as already emphasized in the McDougall Report (1977), only those policies that are genuine ‘European public goods’ should be pursued at the EU level and financed by the EU budget. Hence, an essential ingredient in any successful reform of the EU budget is a redistribution of tasks and funding responsibilities, in order to ensure that Member States do agree on the ‘European added value’ of the common policies being pursued. Whether or not these common policies generate interstate redistribution is to be assessed independently of how they are financed.

But this alone does not imply that the operation of the EU budget entails no distributional consequences, or that it should not aim at some, commonly agreed distributional outcome. Nor does it imply that Member States governments will be indifferent to such distributional consequences: even if the expenditure side of the budget is regarded by all as a reasonable reflection of collective preferences over common policies and European public goods, the way in which the burden of financing is shared amongst Member States, and even possibly the distribution across EU citizens, will always matter.

As argued above and elsewhere (e.g. Le Cacheux, 2005), corrections of perceived distortions in the distributional outcomes of the EU budget based on net national contributions are to be avoided, because they are based on a flawed measure of distributional outcomes and because they entail perverse incentives for Member States government. But minimizing, or indeed eliminating corrections based on net national budgetary balances will not dispense of dealing with financial burden distribution. Corrections or equalization devices should therefore be part of the reform package. But, in order to avoid the complications inherent in the current system of rebates, and rebates on the rebates, it is desirable to have a mechanism of fiscal equalization, inspired by those in operation in existing multi-tier governments, i.e. formula-driven and exclusively based on the distribution of the financing burden on the revenue side of the budget, although it is salient that our survey reveals little enthusiasm for such an idea.

Concern for the promotion of the ‘common good’ and European added value is not likely either to do away with various other aspects of sound budgetary principles and policy, among which the size of budget and the overall budget balance figure prominently. As to the first, one should probably not expect that Member States will be keen to undo what they have been so insistent on doing, i.e. limiting the overall size with an expenditure ceiling and firmly inscribing the annual EU budget in a multi-annual financial framework. In the reform proposals, due regard should therefore be given to these aspects. In particular, if the current, strict version of the balanced budget principle is to be upheld, then any strengthening of genuine own resource component on the funding side of the budget will have to be accompanied by keeping the current GNI contributions, but as a residual for balancing the EU budget annually. Alternatively, in case of a maintained ban on EU budget deficits but some form of ‘automatic stabilization’ mechanism would be deemed useful, especially in the context of EMU, then the rate(s) of the tax instrument(s) chosen as own resource(s) ought to be set in such a way as to yield excess revenue in ‘good times’, in order to accumulate funding reserves in a ‘rainy-day fund’ for ‘bad times’.

4.5 Potential new resources

An underlying assumption in considering possible new resources is that they would replace some of the existing resources and thus be neutral in terms of total EU funding. The candidates for new ‘own resources’ are potentially very numerous and many have already been examined in depth in the Commission’s 1998 and 2004 own resources reports and in a number of recent studies looking at reform of the revenue side of the EU budget, prominent examples being Cattoir (2004), Begg (2005), SEP/GEPE (2005), European Parliament (2006) and Le Cacheux (2007). Eight proposals were discussed in the Commission’s 1998 report and much the same list has resurfaced persistently, albeit with varying orders of preference report. The list comprised:

1. CO₂/Energy tax (environmental tax)

2. A modulated VAT tax
3. Excise taxes on tobacco, alcohol and mineral oil
4. Corporate income tax
5. Communication taxes
6. Personal income tax
7. Withholding tax on interest income
8. ECB's seignorage.

These options were examined in detail in the report, but it did not come out with a specific recommendation, confining itself instead to concluding that while several taxes can be considered consistent with the economic criteria (assignment of tax instruments by level of government in federal context) they virtually all fail, to one degree or other, fully to satisfy secondary criteria. The Annex, however, presents a ranking of these eight EU tax candidates as assessed by Commission of the European Communities (1993); Begg, Grimwade and Price (1997); and Keen, (1995)

The Commission's 2004 own resources report provided an assessment of the operation of the own resources system and invited the Council to reflect on the introduction by 2014 of a new funding system for the EU tax, centred around three options: an energy tax, VAT or corporate income tax. However, a fully tax-based system was not considered realistic at this stage of EU integration and was not proposed in the report; rather, it envisaged that only one half of the EU budget would be covered by such a tax, with balance coming from the GNI resource. The Commission's proposals, which were discussed as a stand-alone element of the MFF proposals, were rejected by a large number of Member States in the very early stage of the negotiations about the 2007–2013 medium-term financial perspective.

As part of a systemic approach, we concentrate here on two elements: the scale of the resources that need to be generated and the compatibility of proposed resources with the more EU relevant selection criteria and policy preferences, discussed above. Regarding scale, it is important to separate out potential resources that might fill a funding 'niche' by contributing a relatively small proportion of the EU's funding requirement from those that would be capable of covering the entire budget, now and in any likely future that increased its overall scale. If the yield from a newly designated resource has to be upwards of 1% of EU GNI (as would be needed to cover today's budget), the tax base would have to be a sizeable one such as consumers' expenditure, personal income or corporate profits. By contrast, if the revenue required is limited to a fraction of a percentage point, then a variety of more narrowly defined revenue sources come into play. A smaller revenue requirement might also make it more acceptable politically to contemplate a new tax or non-tax resource.

As noted above, VAT, corporate income tax and environmental taxes are frequently touted options. But a range of other more narrowly defined taxes could be assigned to the EU level. There are fewer plausible non-tax options, although the revenue from either central bank monetary income or from the auction of emissions trading permits could raise enough revenue to fund a substantial proportion of EU spending. Summary tables for the resources considered are presented at the end of this section, with scores (in tables 4.3 and 4.4) for each of the criteria presented in box 4.1, above (also, appendix 4).

4.5.1 Resources able to fund the whole EU budget

A 'euro-VAT' would be an obvious solution for a larger funding requirement, has frequently been advocated (Gros and Micossi, 2005; SEP/GEPE, 2005) and its feasibility has been examined in depth in the 2004 own resources report and in other work. Assigning the excise duties levied on motor fuels is shown in the 2004 own resources report also to be both feasible and sufficient, and there is enough yield in environmental taxes in aggregate also to achieve this aim. An appendix to the Lamassoure (2007) report, for example, stresses that half the EU budget could be funded by a rate below half the minimum

rate stipulated in Directive 2003/96/EC and thus agreed by all Member States. CIT can, in principle, also generate enough revenue to cope with funding the EU budget in its entirety.

Certainly, VAT is likely to be more stable than either personal income or corporate income taxes which are more cyclical in their yield, and where there are much greater differences in the nature of the tax systems and tax bases. Protagonists of VAT as an EU resource argue that these considerations, together with the fact that yields are relatively even across the EU, mean that it would be the most promising choice among the major tax bases as an EU resource (for example, Gros and Micossi, 2005; Le Cacheux, 2007). By contrast, personal income taxes and excise duties are widely seen as much more politically sensitive than VAT because they are used to effect redistribution or for social policy purposes (such as curbing alcohol consumption), effectively ruling them out as options for the EU. In principle, taxes on capital, especially a corporate income tax, are more credible, partly because in an integrated single market it becomes very difficult to determine where the tax base (corporate profits) is actually generated, as opposed to where it is declared. Indeed some countries have quite deliberately sought to attract corporate HQs precisely because they can then obtain more yield from corporate taxation.

One of the clearest messages from our assessment of the current system of own resources is, though, that the existing VAT resource should be consolidated into the GNI resource, because the various adjustments to the crude yield from the tax to deal with incomplete harmonisation turn it into a *de facto* GNI resource. As the 2004 own resources report stresses, the current VAT resource is not a true fiscal resource, and the report shows that if a true VAT resource were adopted, it would result in quite substantial shifts in the respective contributions of Member States. The political economy question that nevertheless follows is whether *any* proposed EU resource that is derived from a tax base shared with the national level will face similar – possibly irresistible – pressures. If so, the case for using such a resource will be greatly weakened, while that for assigning the whole yield from a distinctive revenue source will be strengthened.

More generally, any change towards an EU tax will have sizeable (though not always easily predictable) distributive consequences that do not necessarily coincide with equity objectives. Indeed, in a comprehensive examination, Osterloh et al. (2008) argue that the *ex-ante* distributive effects of all the options they review are unappealing, not least because none would approximate closely to GNI proportionality (which they consider to be an appropriate benchmark for fairness). Most, if not all excise duties and eco-taxes tend to have uneven distributional consequences, including when assessed from the point of view of inter-country apparent distribution of tax burdens. Such effects could be alleviated, for example by lump-sum transfers, but the point is to alter behaviour. Thus, when a government increases the taxation on tobacco, it has a strong distributional impact, but the proclaimed aim is precisely to hit smokers' purse. The same would apply to pollution abatement instruments.

VAT as an EU resource

There is not much that can be added to previous assessments of VAT as a potential EU resource and there is already long experience of the pros and cons of using it (see box 4.3). All that would be needed would be to assign a proportion of each country's VAT take to the EU level. The only real questions would be whether to correct for differing national coverage (recognising that the further the EU component moves from actual VAT to an artificial one, the closer it comes to being a *de facto* GNI resource) and how to emphasise its visibility, for example by having both the national and euro elements shown on invoices.

Box 4.3 A European VAT

Every country imposes VAT and there is a passable degree of uniformity in the coverage of the tax. An irony, though, is that the EU budget already has a VAT resource, though one which it has proved necessary to manipulate so as to harmonise the tax burden among the Member States. The dilemma here is that if VAT is seen as a viable option, it would only really be fair as a potential EU resource if there were a common rate and coverage of VAT across all Member States. The much-canvassed option of adding an EU component to the existing VAT rate in each country does not deal with this problem, and if an imperative is to adjust the receipts by correcting the actual VAT to reflect difference in Member State implementation of the tax, the direct link between the tax and revenue for the EU would be broken. Indeed, the VAT resource is now seen by many as a *de facto* GNI resource. Yet, from the perspective of improving visibility, a manipulated VAT would, arguably, still be an improvement so long as the manipulation is only a minor element in the yield. On other grounds, notably the scope for raising enough revenue, VAT has much to commend it.

VAT was generalized to all EU countries in the course of the 1970s, and adopted by all new members during their transformation into market economies in the early 1990s. Two European directives, in 1977 and 1991, have imposed relatively uniform taxation practices; the latter has also made some progress in the direction of harmonizing tax bases, and imposed floors on the two major national rates – 15% for the “normal” rate, 5% for the “reduced” rate. In a number of member countries, VAT is shared by the central and sub-national government levels. But VAT has retained the “destination principle”, so that it maintains a distinction between intra-European trade and domestic sales, hence some form of distortion in the Single market¹¹.

Being a general tax on consumption, with a large base and relatively low rates, VAT may be regarded as one of the most neutral forms of taxation. Insofar as it does not tax savings, it corresponds to the ideal general consumption tax that many analysts (Hines, 2007) and policymakers have been advocating, even to replace personal income taxes, in the US in particular. But VAT is also often deemed unfair, as it taxes low-income individuals, who tend to consume a larger fraction of their income and save less, relative to high-income individuals. This vertical inequity of VAT is mitigated by the existence of reduced rates on staples and other basic consumption goods and may be counteracted by other redistributive instruments, as exemplified in North America by food stamps.

In addition, in a world of low inflation and barring complete indexation of wages of consumer prices, a VAT obeying the “destination principle” - hence exempting exports - is an instrument for indirectly taxing imports, thereby substituting for tariffs, that tend to be banned by international trade agreements in the framework of WTO, and for currency devaluations, that are no longer possible under EMU, and are currently not being used in the context of monetary relations between the euro zone and the rest of the world. Such a tax can therefore be regarded as an instrument of intra-EU tax competition when used by one national government¹², which would constitute yet another argument in favour of limited centralization: the “vertical competition” thus introduced by allowing different government levels to tax the same base would mitigate the effects of existing “horizontal” tax competition.

Transferring a “slice” of VAT to the EU budget has been suggested by many, including, recently, the European Parliament. It would be relatively easy, technically. If EU decision makers wanted to make the transition almost unnoticeable, it could be done without, initially, translating into any change in the overall rates of VAT taxation, so that EU taxpayers would barely notice it. The EU Parliament would then be responsible for voting the rate for this EU VAT. Apart from these advantages in terms of simplicity and transparency, the adoption of such an instrument would introduce a clear and relatively neutral principle of taxation, based on resident consumption expenditures, with distribution of the national tax burdens being determined by a simple, non manipulable mechanism. Moreover, the yield from VAT taxation is directly related to economic activity, though less subject to cyclical fluctuations than many other taxes, which gives this instrument relatively good automatic stabilizer properties, without generating unduly large imbalances in case of economic downturns, slowdowns or recessions.

Even figures quoted by Gros and Micossi in support of their advocacy show that VAT yields vary between 6% and 9% of GDP across the EU-25 Member States, while private consumption (essentially, the tax base) as a share of GDP ranges from 42% to 67%. More recent data from DG TAXUD (2007) show that these disparities have been maintained, but that one of the newest EU Member States (Bulgaria) has the highest VAT yield, rising to 12.4% of GDP in 2005. Although there is some correlation between the VAT rate and the yield, the relationship is far from linear, and the notion that VAT is regressive as between Member States (that is raising more in poorer Member States than richer ones) is also partly contradicted by the relatively high VAT yield in the Nordic countries as well as among the least prosperous Member States. The implication of all this is that if the proposed model of taking a slice of each country’s VAT for the EU were applied, it would have an uneven incidence on the Member States. Thus even for a tax that is relatively harmonised, the disparities between Member States remain significant.

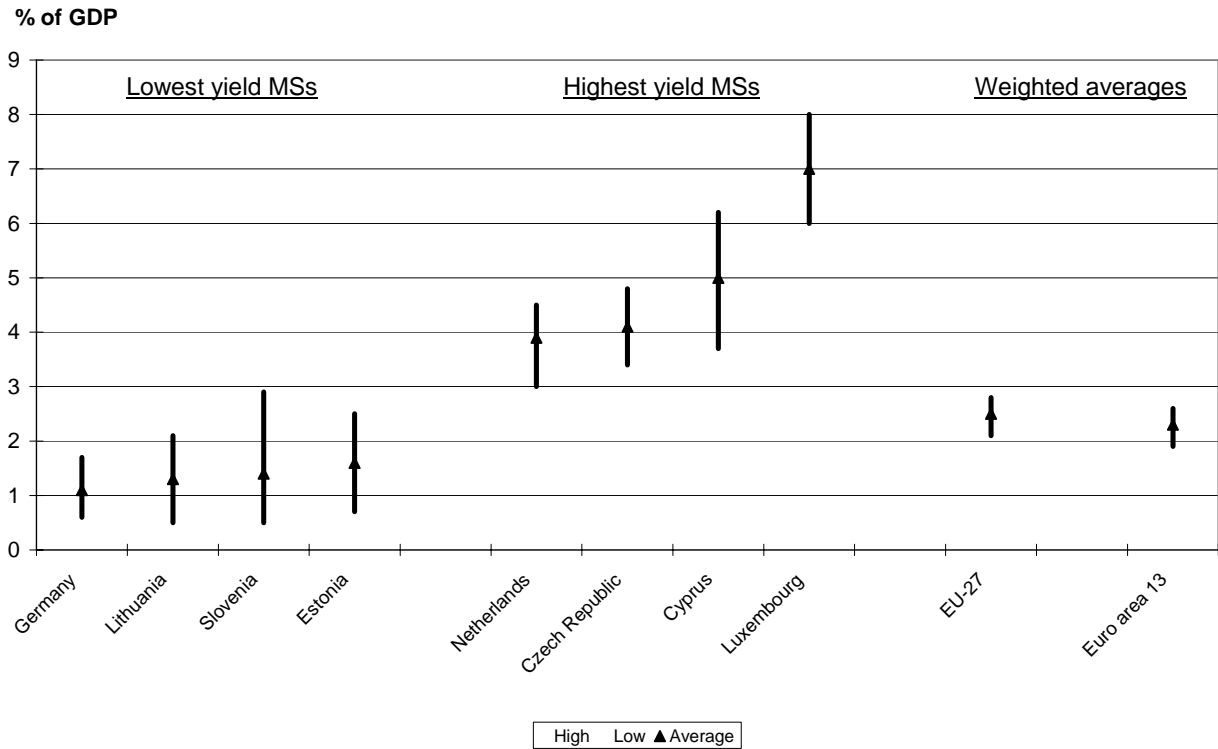
¹¹ Failure to agree on an “origin principle”, for good reasons – it would have made VAT a tax on production, rather than a consumption tax, with related problems of competitiveness - has also induced a high level of tax evasion and fraud: estimates of missing receipts run at about 10 to 15 per cent of the total yield. According to a recent Commission estimate (EU Commission, 2006), total EU tax fraud may amount to as much as €200 billion, i.e. 2 to 2.5 per cent of EU GDP, which is significant and much higher than the total EU budget. While bearing in mind that there is a large margin of uncertainty.

¹² See Creel and Le Cacheux (2006), for an analysis of national strategies of “competitive disinflation” using tax instruments, such as in VAT rates, with special reference to Germany. For a more general analysis of incentives for national governments to embark on such non cooperative strategies, see Fitoussi and Le Cacheux (2007)

Corporate income tax for Europe

Corporate income tax rates and allowances vary more extensively than consumption taxes across the EU and are also less stable over time. DG Taxud (2007) data show that over the last decade, the yield from CIT ranged from a low of 0.5% of GDP (Lithuania in 2001) to 8% (Luxembourg in 2002), but that Germany over the period as a whole had the lowest average yield, despite its high nominal tax rate. Interestingly, the weighted average for both the EU-27 and the euro area is much more stable (figure 4.1) and in most of the eleven years observed not far from the respective averages of 2.5% and 2.3 % of GDP. CIT, as explained in box 4.4, would need the creation of a common tax base.

Figure 4.1 Range of yields from corporate income taxes, 1995-2005



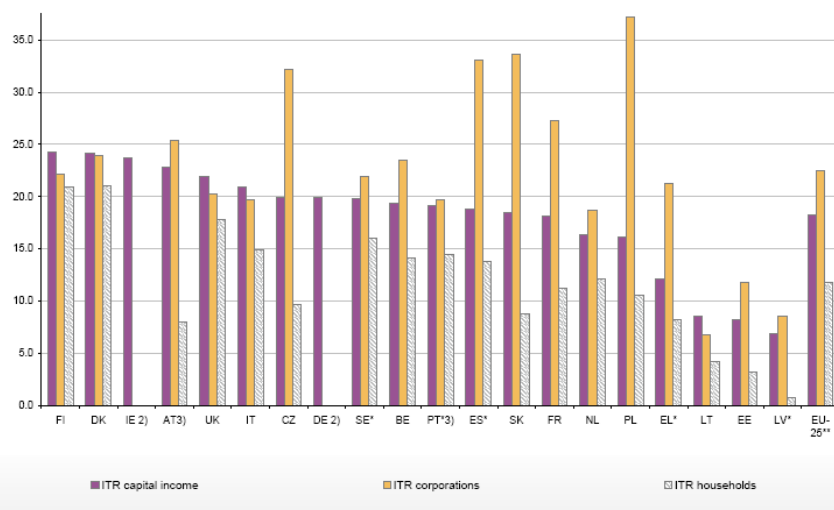
Note: the high-low bars show the peak and trough yields for each reporting country or aggregate over the full period. The year in which these extremes are observed are not necessarily the same for each reporting area.

Source: DG Taxud (2007)

Box 4.4 An EU-wide corporate income tax (CIT)

Currently, the revenue from CIT income taxes represents 2.6% of the EU-27 GDP (Eurostat and Taxud, 2005 data), but with very large dispersion across Member States: Germany had the lowest revenue from CIT, with 1.1% of GDP, Luxembourg the highest with 6%. The figure for the average demonstrates that a European CIT would yield more than enough to fund the EU budget, and if the aim is to raise only a fraction of it: less than half of the current average yield would be amply sufficient. However, not only do the rates vary across countries, but so do the definition of the base (corporate taxable income), so that it is difficult to foresee what a move toward a European CIT would entail. If one judges from the synthetic measure calculated by TAXUD - the implicit tax rate shown in the figure below - then most EU Member States are around 20%, but some are clear outliers, with higher or lower implicit rates.

Graph II-4.5 ITR on corporate income and on capital income of households¹⁾
Average 1995 to 2005 – in %



Note: *EL:1995-2004; ES:2000-2005; LV:1999-2004; PT:1995-2003; SE:1995-2002 **Arithmetic average of available data 1) including self-employed 2) Split corporations/households not available; for EL simplified denominator, see Annex C, part D 3) self-employed allocated to corporations

Source: Commission Services

The practical aspects of introducing European CIT would have to include moving to the CCCTB (Common Consolidated Corporate Tax Base, proposed by the Commission), making it compulsory for the companies concerned, and deciding on a common rate for funding the EU budget. It would be an open question whether the tax should belong wholly to the EU level, with any surplus redistributed, or shared. In the latter case, those Member States governments wanting to raise their own national CIT would be allowed to do so without limits, and the share of the consolidated tax base upon which national CITs would be levied would then be determined according to a formula-apportionment scheme, much as in the USA.

Though technically quite straightforward, the reform would have distributional consequences that are impossible to predict, because various consolidation schemes would yield different geographical distributions of taxable corporate income, and because European companies, especially large ones, will probably react to the new tax rules by relocating their headquarters. It should also be recalled that the Commission does not propose harmonizing corporate tax rates and that such a move would undoubtedly lead to fierce opposition from many stakeholders, Member States or companies.

Personal income tax

Personal income could in principle be shared with the EU. All countries impose personal income taxes, albeit at rates which vary substantially from one Member State to another, but assessment and collection systems are well-established. Most national systems are progressive tax, but with differing bands, tapers and allowances, although a minority of Member States has opted for flat taxes, while marginal rates differ substantially. From the perspective of sufficiency, there should be no great difficulty in using the income tax base, although the number of citizens that pay income tax is substantially smaller than the population as a whole. As noted above, income tax has a pivotal role in national systems of redistribution, but one which varies hugely depending on the interplay between rates, allowances, thresholds and so on. Tax avoidance by the very rich is also recognised as a problem. For these reasons, it is a sensitive tax in national political economy, undermining its credentials as a tax to fund the EU.

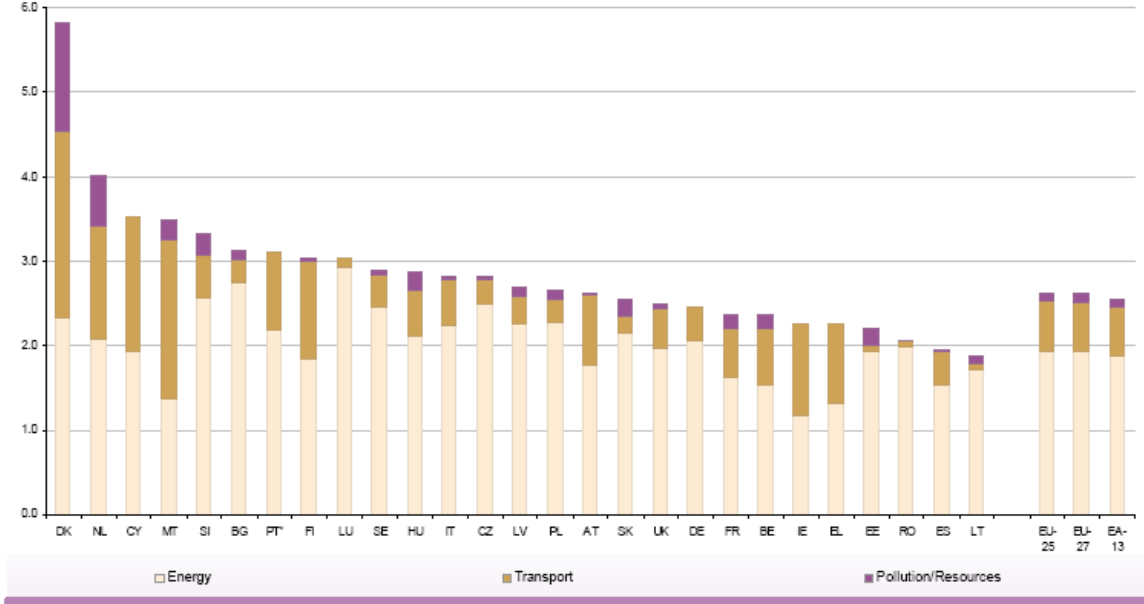
Environmental taxes

Various forms of environmental taxes are certainly capable of yielding enough revenue, and would be defensible on the grounds that the tax-base is one in which dealing with cross-border externalities is an issue. Although environmental taxes are at present rather diverse across the EU, comparative data show

(figure 4.2), even in the Member State with the lowest taxes environmental taxes, they yield over 2% of GDP, and energy taxes alone are at a level that would already be sufficient to fund today’s EU budget.

Figure 4.2 Environmental tax revenues by Member State

2005, in % of GDP



Note: *PT: 2004. EU-25, EU-27, EA-13: weighted average.

Source: Commission Services

An EU excise duty on motor fuels or fossil fuels in general, or on kerosene, or on greenhouse gas (GHG) emissions (carbon tax) would combine reliable yield (at least in the short-run), a relatively low administration cost and a price incentive to induce a general reduction in the taxed consumption or activity. Moreover, because such fuels are for the most part imported into the EU from the rest of the world, it would have an incidence partly on the rest of the world: in other words, exporters of fuels to the EU would bear part of the tax burden, which then acts as an import duty¹³. In a similar vein, a generalized carbon tax, imposed on all, or at least most, sources of carbon dioxide emissions – even better, though more complex, on all sources of greenhouse gas emissions - would alter relative prices and costs. Hence there would be incentives for private producers and consumers, with results that have sometimes been termed as “double dividend”. It should, though, be borne in mind that the more effective these instruments are in abating pollution the less revenue they bring, yet also recognised that demand for transport is typically quite inelastic, with the implication that this effect would not be great. Hence, a carbon tax could be articulated with the existing market for emission permit trading, in such a way as to bring about more revenue for the EU budget (see box 4.5) and a coherent - and probably rising - price for carbon emissions.

Box 4.5 A carbon tax

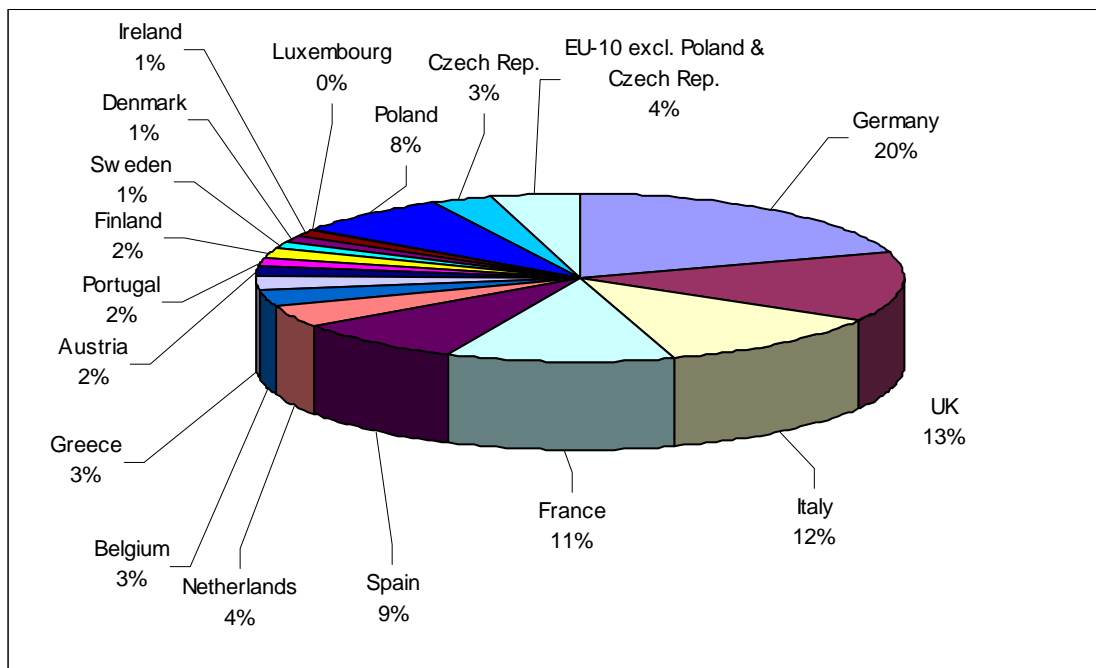
Though environmental taxes have been expanding in the various EU Member States in the past decades, there is no such a thing as a pure carbon tax. The recent Commission report (EU Commission, 2008) on the instruments for

¹³ See the recent Commission report on eco-taxation (EU Commission, 2007) as well as Hines (2007). In a recent contribution, Godard (2007) convincingly argues that a carbon tax ought to be complemented by import duties on high-carbon imports from third countries, making the point that such ‘tariffs’ would not be contrary to WTO rules. They would then also be a welcome contributor to the revenue side of the EU budget.

reducing greenhouse gas emission did consider its introduction, and doing so at the EU level would clearly be coherent with policy priorities, as well as mitigating the tax-competition consequences that may arise if such an instrument is introduced in a decentralized way by Member States on a voluntary basis. Combined with the ETS, an EU-wide carbon tax could be an instrument to place the price of carbon on a path consistent with emission reduction objectives.

In 2006, the total yield of environmental taxes in the EU-27 has amounted to 2.6% of GDP, but the instruments under this heading are quite diverse, so that this figure gives little indication about the potential yield of a carbon tax set at the EU level. It is however obvious that an EU carbon tax could easily raise the kind of amount that is required to fund part or even the bulk of an EU budget of the current size, or even slightly larger. The potential problem with a uniform carbon tax at the EU level is the distribution of the amounts levied across Member States. Indeed, based on the current figures on emissions by the various EU countries, the distribution would be as shown in the following chart:

Distribution of greenhouse gas emissions



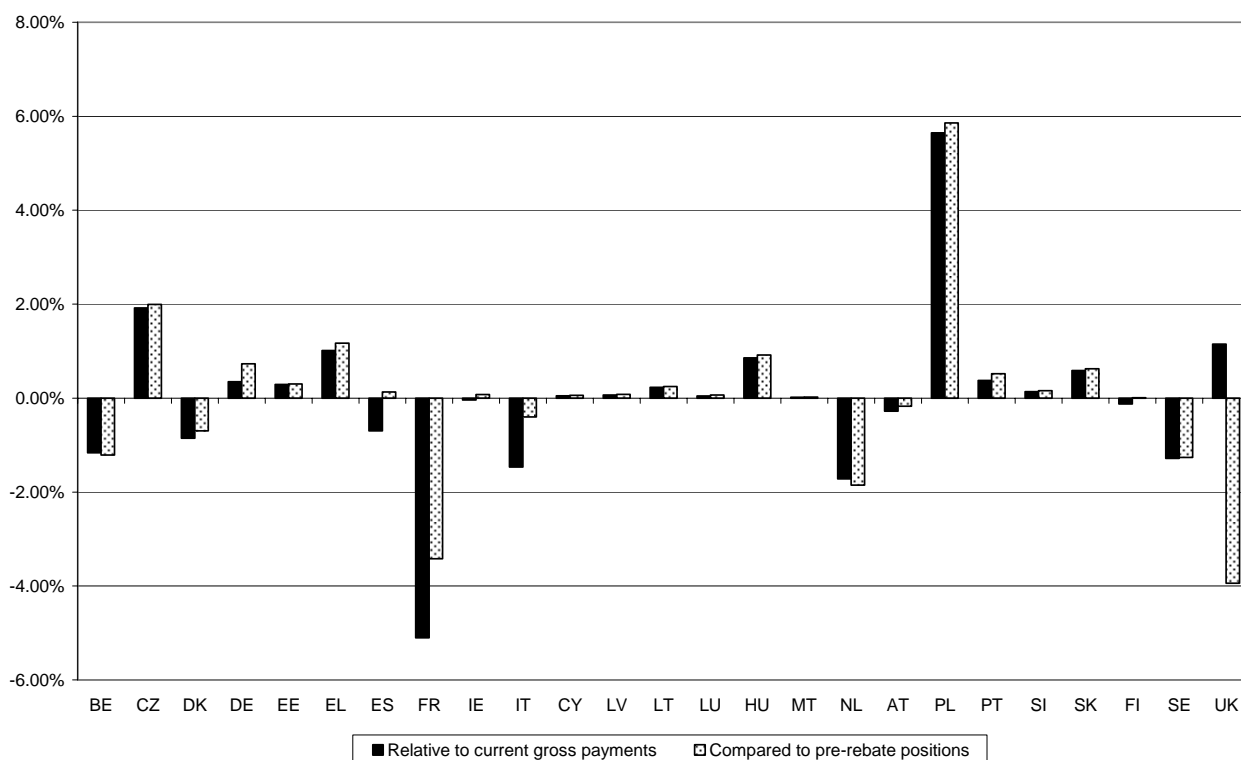
Source: European Environmental Agency.

Apparent from the chart is the strongly unbalanced distribution of emissions. Though changing over time, there is a lot of inertia. Even though from a pure efficiency viewpoint, this heavily unbalanced distribution of financial burdens amongst Member States is not a problem, it raises the issues of fairness and acceptability. That is why any move in this direction would have to be accompanied either by the adoption of another EU tax, or by an automatic equalization scheme to offset the distributional incidence of the a carbon tax.

If an EU resource were based on a crude measure of greenhouse gas emissions, it would have a quite marked effect on how the burden of ‘paying for Europe’ is shared among the Member States, especially pronounced for a minority of countries. Figure 4.3 shows that the main winner would be France which would see its share of the financing of the budget fall from 16.3% to 11.2%, while Poland would be a massive loser, with a jump from 2.4% to 8%. More generally, such a switch would be to the benefit of the richer Member States and to the detriment of the Member States that rely heavily on ‘dirty’ coal for power generation. To the extent that the imposition of such a charge would alter patterns of consumption and production, these are ‘worst case’ data, but it is self-evident that Poland would veto a shift which meant a threefold jump in its gross contribution unless some compensating tax were introduced simultaneously, or some correction mechanism were to operate on gross contributions.

Figure 4.3 Consequences of basing EU funding on greenhouse gas emissions

(Difference between 2005 shares of greenhouse gas emissions and 2006 shares of financing of EU budget, percentage points)



Note: The black bars show the difference between the share of each Member State in total EU emissions of greenhouse gases and its share of actual payments to the EU budget. The dotted bars compare emissions with the funding shares before the corrections associated with the UK abatement and the collections fees for traditional own resources.

Source: European Environment Agency (2007) and DG Budget (2007)

4.5.2 Lower yield options to fund a portion of the EU budget

Many different ideas have been canvassed for new resources that, on their own would be insufficient to fund the budget fully, but which could be envisaged as part of a package of reforms. Thus, a tax on flights was advocated by the Austrian Presidency in 2006, and the idea has since been reiterated by former Chancellor Schüssel (2007) who, drawing on a joint initiative of the parties in the Austrian Parliament promulgated in 2006, also canvasses the idea of a tax on foreign exchange transaction. The revenue from emissions trading permits looks alluring, as does finding a way of tapping into the burgeoning revenues associated with information technology revolution, or drawing on central bank monetary income.

Emissions trading permits

In effect, auctioning of a substantial proportion of emissions trading permits, as envisaged from 2012 as part of the Community energy policy can also be a form of carbon tax that is capable of generating substantial amounts of revenue (see appendix 5 for more details), although for the immediate future it could only cover a proportion of EU financing and would thus be most suitable for a lower share of the budget.

Box 4.6 Receipts from the ETS

Efforts to reduce carbon emissions have given rise to an international agreement on restricting the amount through the introduction of a “cap and trade” system within the Kyoto-Protocol. This scheme can be considered as an agreement on government regulation transforming the previously cost-free emission of CO₂ into a cost-based exercise. The current

provisions of the Kyoto Protocol require countries to reduce their emissions by 5.2% of their 1990 baseline during the period 2008-2012. The European Union decided to be treated as a single entity in the Protocol (the formal term is “bubble”, referring to a cluster of countries) and has created an EU Emissions Trading Scheme (ETS) as a market within the market. The unit of account in this scheme is the “EU Allowance” (EUA).

The ETS went into operation on 1 January 2005 after a two-year start-up phase, during which forward contracts were traded. It covers more than 10,000 plants or installations in various sectors, accounting for roughly half of all European CO₂ emissions. The first phase of the ETS runs from 2005-2007. During this period, emission rights were issued for free. During the second period (2008-2012), Member States can decide to auction up to 10% of their allocated EUAs thus generating non-tax revenue.

For the time being, there is no agreement on the share of EUAs to be auctioned after the end of the second period. Also, it is unclear by how much the CO₂ emissions in Europe will be agreed to decline between 2012 and 2020. However, there is a general accord that at one point all EUAs will be auctioned. The EU Commission has already floated proposals transferring the auctioning of EUAs to the European level so as to ensure a harmonized way of issuing EUAs within the ETS.

The potential revenues from the ETS depend on various factors, some of which can be fixed ex-ante through regulatory decisions, while others will stay open until the very day the income is generated. A first and critical factor is the overall amount of CO₂ reduction in Europe. For the time being, the EU has itself set a goal of a reduction of 30% by 2020 (if other countries follow). The reduction goal obviously determines the number of EUAs in the market. As a consequence, depending on whether that goal is kept or altered, the market price for EUAs is likely to vary. This factor can and will be decided upon ex-ante.

A second factor is the share of EUAs that will be auctioned in the market. As mentioned above, from 1 January 2008 onwards, 10% of nationally allocated EUAs can be auctioned by Member States. There is no rule for the period after 2012, however. It could be decided to auction all EUAs, thus putting a considerable financial burden on companies and economic agents responsible for emitting CO₂. On the other hand, it could also be decided to give out a large number of EUAs for free, thus creating an incentive for CO₂ friendly producers to sell the rights they don't need, thus generating incentives and potentially profits for energy efficient firms. Obviously, the amount of EUAs auctioned is decisive not only for the market price but also determines the revenue deriving as non-tax income from such auctions. In this context, it should be noted that the ECOFIN Council in February 2008 issued a very explicit statement warning against transferring the receipts from the auctioning to the EU level: “For reasons of subsidiarity and sustainable public finances, revenues from auctioning should be used in line with sound budgetary principles and, specifically, not be subject to mandatory earmarking or hypothecation at EU level.” (ECOFIN Council conclusions on efficiency of economic instruments to reach energy and climate change targets, 12 February 2008).

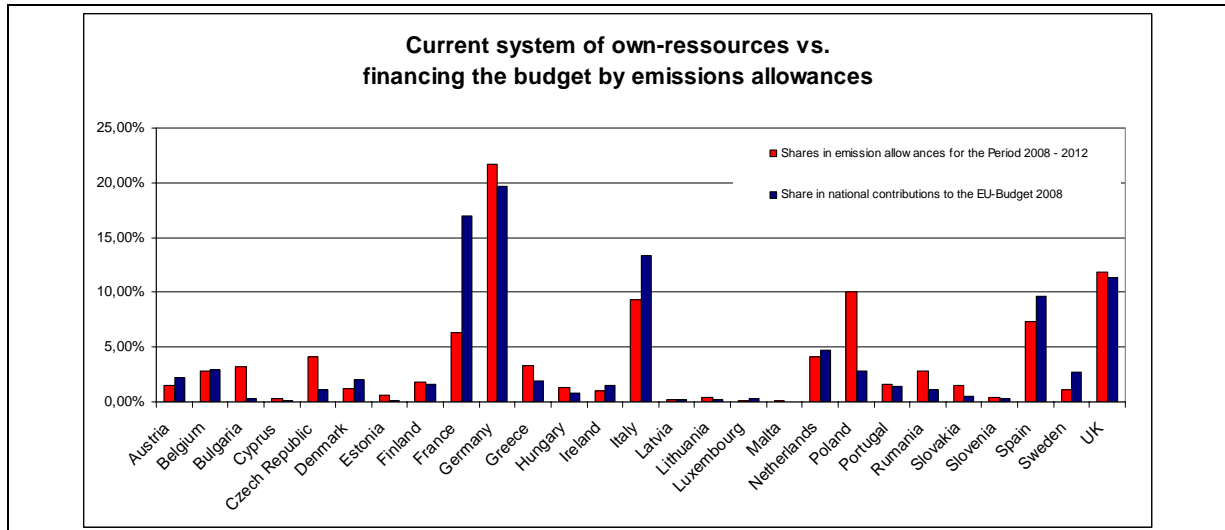
A third factor is the overall market context. It is very difficult to predict the market price for CO₂ emission rights several years or a decade down the road. There are several studies seeking to predict the market price during Period II of the ETS. In addition, there is a futures market allowing to evaluate how markets participants themselves value the most likely price for EUAs during Period II of the ETS. The following table aggregated annual receipts from the ETS on the basis of three different price scenarios for the period 2012-2020.

	Prognos Estimate	Period II European Carbon Future	Deutsche Bank Estimate
	€15/t	€21,33/t	€35/t
Sum	31.291.750.185 €	44.496.868.763 €	73.014.083.765 €
Percentage share of 2008 EU budget	27%	38%	62%

The first scenario is based on study by the University of Cologne and Prognos for the German Ministry of Economic Affairs (Prognos 2007). The second scenario is based on a current future price (from 26 September 2007). The third scenario is based on a market prediction by Deutsche Bank from 25 July 2007.

As the table indicates, the potential revenue contribution to the EU budget could be important, ranging from 1/3 to 2/3 of an annual budget – depending crucially on the underlying assumptions. In the table above, the key assumption is that 100% of the EUAs are auctioned and that the overall emission reduction target is set at 30% until 2020.

On the basis of the shares in emission allowances for the period 2008-2012, the following graph shows a comparison between the shares of current national contributions to the EU budget and the projected shares of contributions based on the ETS. There are some distortions, but those distortions favour countries with low CO₂ emission volumes and could thus be considered economically efficient in countering market failures.



Looking at the political justifications and implications, the revenue source would certainly trigger discussions. On the one hand, given the existence of an EU cluster in the international emission reduction efforts and the high level of externalities involved in CO₂ emissions, it could be argued that the EU should play a very important role in running the ETS and should thus also collect the revenue. On the other hand, there is no exclusive EU competence in this field, thus raising the question of an implicit shift of competencies to the EU level should this revenue be allocated to the EU budget. However, there is a clear common pool element in this context: letting Member States use the proceeds from EUA auctions to fund national budgets may be regarded as counterproductive, as it would imply that the ‘least virtuous’ countries would gain more than those who make efforts to reduce emissions.

Most importantly, however, the revenue from the ETS would be largely financed by specific sectors in society (energy, transport, etc.). While those sectors could certainly pass-on their costs to citizens, issues of equity and transparency would have to be discussed. Yet a key point is that so long as ETS is going ahead anyway, these issues will arise, in much the same way as the equity dimensions of TOR are secondary to the need for common trade instruments.

The question of the long-term stability of such a revenue flow could also be raised. Although it could be argued that even with a decline in overall emission levels the price of EUAs could stay stable (and thus the revenue contribution to the EU budget would not decline rapidly), there is a lot of uncertainty related to the future price of EUAs and the overall international strategy in CO₂ reduction.

Flights duty

A duty on flight departures, similar to the one shortly due to be introduced in the UK, is an example of a new resource that would generate a small but significant proportion of the EU’s revenue, while also having a resonance in relation to EU policies. There is also an issue about tax competition in that a piecemeal imposition of such a tax could lead to avoidance by passengers who opt to transit through airports in countries which do not have it. Box 4.7 provides more details.

Box 4.7 A levy on flights

The UK has, for many years, levied a duty on air passengers departing from UK airports. So far, the duty has been imposed on the individual and levied at different rates depending on the class of travel, the destination and whether or not the ticket price was below a threshold that signified that the carrier was a budget airline. From 2009, however, the duty will be replaced by an imposition on planes leaving UK airports rather than passengers, although the overall revenue raised will only gradually increase. The projected yield from the duty in 2009/10 is £2.5 billion which is around 0.17% of UK GDP.

Although the proportion of EU flights leaving the UK is currently higher than its share of EU GDP, the number of flights in the area covered by Eurocontrol (which oversees air traffic across Europe) is projected to rise very substantially over the next 20 years, with the most restrained scenario showing an increase of some 70%, most of which will occur by 2013. The

UK experience and the projected increase in flights suggests that for the EU as a whole, a duty imposed at a rate comparable to the one that will be imposed in the UK from 2009 could raise at least 0.2% of EU GNI from 2013 onwards, and could therefore fund 20% of an EU budget that remains at around 1% of GNI. As such it is a credible potential own resource for a limited contribution to revenue, set out in the 'community own resources' scenario developed in the next chapter.

In terms of the criteria for selecting EU resources, a flights duty has a number of attractions. 'Open skies' is an EU policy aim, the Commission has taken a leading role in promoting liberalisation of the market for air services, and there is an integrated EU structure for air traffic control under the auspices of Eurocontrol. At the same time, dealing with global warming has become a politically salient policy objective, and for the UK the levy is seen as an environmental tax so that it chimes with the aim of taking action to counter climate change. There is a substantial number of flight departures from all Member States, but a possible objection is that an imposition on flights alone will penalise geographically more remote areas and be inadequately related to ability to pay. Larger countries with a substantial number of internal flights may also raise objections. On the other hand, a substantial proportion of the passengers departing many Member States are citizens of countries other than the country of departure.

An obvious drawback of a flights tax is that it would fall on a single industry and be distortionary, yet as with other 'Pigouvian' taxes it would be distortion for a purpose, namely to ensure that polluters pay in the interests of environmental objectives. Another possible objection is that for most Member States, a flights duty would be a new tax which might lead to resentment, but a new tax may actually raise the visibility of EU revenue raising and in so doing meet one of the demands of a more political approach to the budget.

Potential problems of implementing a flights duty have been addressed by the UK government (HM Treasury, 2008) in preparing the ground for the new levy. Under the Chicago Convention that governs civilian air transport and which led to the creation of the *International Civil Aviation Organization* (ICAO), signatories may not (Article 24) impose duties on fuel for international flights. All EU Member States are signatories, although some do tax kerosene used for domestic flights. This obligation is interpreted also to exclude duties that are too closely related to the consumption of fuel. For this reason, a duty predicated on the length of a flight would be open to challenge. However, the UK analysis is that the proposed duty is sufficiently distant from a direct fuel tax to be legally robust, and it is also salient that the UK passenger levy has been successfully applied for many years.

Defining a tax base for the duty is reasonably straightforward. The Treasury advocates the use of Maximum Take-off Weight (MTOW), a readily available indicator and one which is already used by Eurocontrol in calibrating air traffic control charges. If used, the duty liability could be a linear function of tonnage, some more complex formula, or could employ bands for different size classes of planes. An evident drawback is that the MTOW does not reflect differences in fuel efficiency of aircraft of similar weight – likely to be a contentious issue by penalising modern airframes with more economical engines (see Wit and Dings, 2002, for further analysis). Possible alternatives for the tax base are to classify flights by the volume of emissions at take-off, a measure seen as a reasonable proxy for the propensity to emit of the aircraft. Two such measures monitor what is known as NOx, the combination of nitric oxide and nitrogen dioxide (which have both greenhouse and ozone layer depletion effects) and carbon dioxide. All the measures are readily available and correlate reasonably well with emissions during the flight. It also means that a possible objection from a small country that mainly uses smaller aircraft would be addressed, as small aircraft would face lower duty.

Distance is easily computed geographically, but is subject to re-routings imposed by air traffic control and could also give rise to market distortions if passengers have incentives to include a stopover at an airport outside the tax base. The Treasury therefore expresses a preference for a three tier charging system: flights within the European Economic Area; those up to 3,000 miles; and the remainder over 3,000 miles. The duty could be collected from airlines or (at lower administrative cost) from airports and impact assessment suggests that the burden would not be great on the industry. Because duty would be per flight, rather than per passenger, it is more difficult to allocate pro rata to individual ticket prices, but that is the case for most of the costs incurred for a flight. The Treasury paper also indicated no change in the cost of tax collection by government agencies compared with the UK's existing passenger duty.

Taxes on information flows and telecommunications

Lamassoure's idea of a tax on SMS texts shows that a small tax on a very large number of transactions would soon raise considerable amounts of money. According to a trade body, there were some 444 million subscribers to GSM services in Western Europe and 350 million in Eastern Europe (their definitions of the geographies - the latter includes Russia and Ukraine). This can be interpreted roughly as at least one GSM per head of population. The total telecommunications market in Germany was estimated in 2007 to be some €70 billion. Annual per capita ICT expenditure in the EU was €1,344, ranging from €113 in Romania to €2,473 in Sweden (EITO, 2007). Simulation work done for a study by Deloitte (2007) suggests that lower taxes on mobile telephony would have a pronounced effect on the subscriber base in several parts of the world, but would be minimal in the EU where the price elasticity of demand is very

low. All these data suggest latitude for taxing this base in such a way as to raise a sizeable proportion of the revenue requirement.

Central bank monetary income

Depending on assumptions about how to apportion the revenue it generates and whether to count only seigniorage or other earnings, central bank monetary income could be another source able to generate a proportion of current revenue needs (see box 4.8; also appendix 5). Monetary income is defined as the combination of the net revenue derived from issuing the currency (“seigniorage” income or, more technically, the revenue from the return on the assets backing the outstanding stock of currency) and the net revenue from managing other central bank assets (mainly foreign exchange reserves).

A legal or political justification of transferring this revenue to the EU level is straightforward. Since monetary policy within the euro area is an exclusive competence of the EU (Article 3 of the current version of the *Draft Treaty amending the Treaty on European Union and the Treaty establishing the European Community* – the former EU Constitutional Treaty – stipulates that the “Union shall have exclusive competence in the following areas: ... (c) monetary policy for the Member States whose currency is the euro.”). On the other hand, there would be two important institutional challenges deriving from such a transfer: (i) precise rules for the non-EMU countries would have to be established, (ii) the current institutional set-up of the Eurosystem would have to be amended, since the national central banks are formally the ECB’s capital subscribers and therefore technically the current owners of the ECB’s monetary income.

One might also want to note that a certain component of the Eurosystem’s monetary income cannot be easily allocated to any specific Member State. With the increase of euro holdings outside the euro-area (in particular as central bank reserves elsewhere in the world), seigniorage income is generated but in fact belongs to the euro-area as a whole.

Finally, it should be stressed that concerns with regard to the independence of the ECB do not seem warranted. Each national central bank transfers its profits to its respective domestic government (or shareholders). Even the most independent central banks such as the Bundesbank thus were in exactly the same relationship of financial and operative independence vis-à-vis their government as the ECB or the Eurosystem would be vis-à-vis the European Union if the monetary income deriving from the common monetary policy were to be allocated to the EU budget.

Box 4.8 The ECB’s monetary income

The provisions on Economic and Monetary Union in Europe (EMU) contain an encompassing set of rules on how to deal with the monetary income of the European Central Bank (ECB). When joining EMU, each national central bank (NCB) contributed a certain amount of interest-bearing assets, the total amount of assets was of €52bn in 1999. In exchange, each central bank obtained something like a drawing right on future ECB profits, deriving from the so-called “capital key” of the ECB, based on a combination of population share and GDP-share (each weighing 50%). The intra-European redistribution of revenue deriving from the difference between the percentage share of the actual contribution by each NCB to the asset pool and the capital share has been widely discussed (mainly Sinn and Feist, 1997).¹⁴ As a consequence, the redistribution scheme based on the capital key did not start in 1999 but is being phased in progressively and will be fully operative on 1 January 2008.

Coming up with a precise assessment of the potential revenue flow from transferring the ECB monetary income to the EU level is difficult. The main reason is that the allocation of the different assets in the balance-sheets of the ECB and the NCBs is rather opaque. For example, each NCB has its own balance sheet with assets and liabilities from the main refinancing operations, thus realising its own seigniorage income within its own balance sheet. This is due to the fact that the actual monetary policy operations are conducted by the Eurosystem (i.e. the group of NCBs) under the authority of the ECB but not by the ECB itself. While the ECB produces a consolidated financial statements of the Eurosystem, its own balance sheet and thus also its annual profit do not reflect the consolidated profits of the Eurosystem. The ECB’s regular income is derived primarily from investment earnings on its holding of foreign reserve assets and its paid-up capital of

¹⁴ For example, the German *Bundesbank* contributes with 29% to the capital of the Eurosystem but is formally only a shareholder of 21%.

€4.1 billion, and from interest income on its 8% share of the euro banknotes in circulation. The ECB pays remuneration to the NCBs on their claims in respect of the foreign reserve assets transferred by them to the ECB.

Disentangling this rather complex interconnection between assets held at the NCB level and assets held at the ECB level would be a challenging legal and accountancy exercise. Yet from a purely economic and monetary policy perspective, the set-up could be straightforward, implying nothing more than a consolidation of the balance sheet of the entire Eurosystem. NCBs could remain the executing arm of the Eurosystem, yet the architecture of the balance sheet s would look completely different.

Without a very time-consuming and detailed analysis of the balance sheet of each NCB and the ECB, it is difficult to estimate the exact consolidated profit of the Eurosystem. The following numbers are simplifications insofar as they present the actual annual profits of NCBs. Those profits include transfers from the ECB and the share in the Eurosystem’s seigniorage income. Yet they also include profits from other NCB operations on assets that are not strictly assets of the Eurosystem. On the other hand, those data do not reflect the money that the ECB sets aside in a provision against future risks. The Eurosystem’s policy is quite particular: unrealised gains are transferred directly to revaluation accounts, whereas unrealised losses at year-end that exceed revaluation account balances are treated as expenses. This policy significantly skews the annual results.

The share of non euro-area NCBs is calculated on the key of the GNI-share of each Member State in overall EU-GNI (i.e. the contribution by out-countries depends on the actual monetary income of the euro-area). The following graph gives an estimation of the potential revenue share for the EU budget. It is straightforward that the actual share varies enormously between roughly 40% of the annual budget and 3.7%.

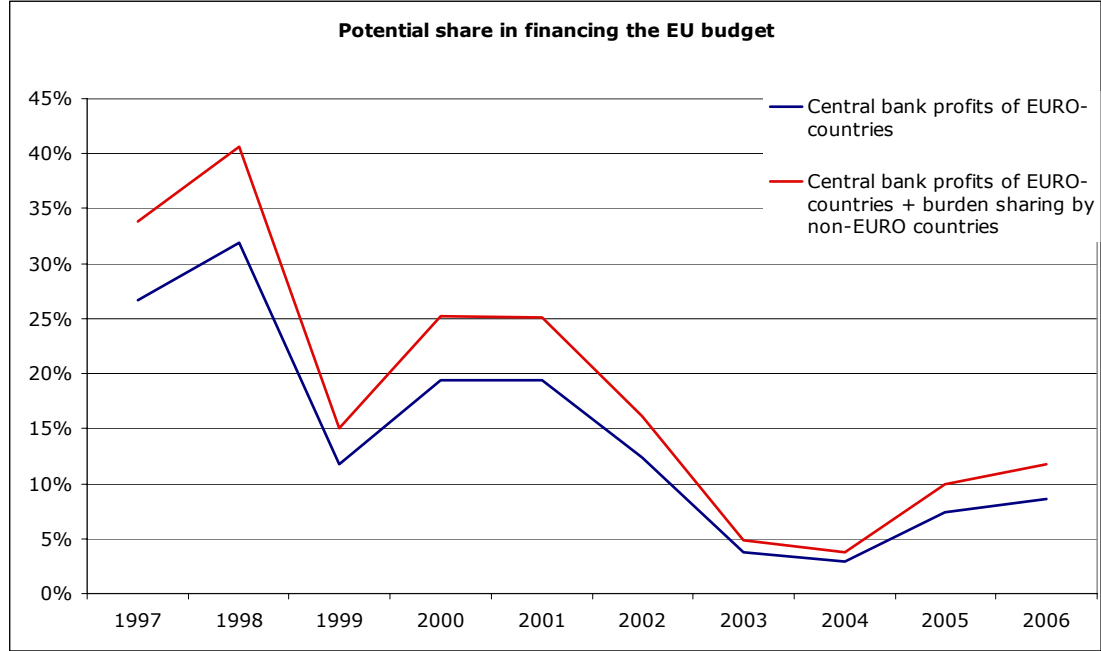


Table 4.1 Overview of resources capable of funding the whole budget

Proposed resource	Form as EU resource	Sufficiency	Visibility	Sensitivity	Strengths	Weaknesses
VAT	Set number of percentage points of total VAT rate	Ample	Could be made so	Relatively low	Broad based; reasonably harmonised; easy to enact	Some distributive imbalances; likely need for adjustments
Corporate income tax (I)	Wholly Europeanised with all proceeds to EU level	Ample	Moderate; could gain from being publicised as EU resource	High, more so for some MS	Eases regional appropriability problem; consistency with single market	Cyclical volatility in yield; lack of common tax base; need for surplus sharing
Corporate income tax (II)	Shared revenue with other tiers of government	Just sufficient		Fairly high;	Reduces incentives for harmful tax competition; link to single market	Volatility of yield; lack of common tax base, unless harmonized tax base is adopted; problems of regional appropriability
Motor fuel duties	Shared revenue with other tiers of government	Some room for increase	Fairly high	Moderate	Harmonised base; link to EU energy/climate policy	Perception of raising transport costs; penalises peripheral MS
Personal income tax	Set number of percentage points of total national tax rate	Ample	High, but not paid by all citizens	Very high	Should reflect ability-to-pay;	Very varied tax base and rates across MS; used for social & redistributive purposes

Table 4.2 Overview of resources capable of funding part of the budget

Proposed resource	Form as EU resource	Sufficiency	Visibility	Sensitivity	Strengths	Weaknesses
Flights duty	Payment per take-off calibrated by size of plane and length of flight	Up to 0.2% of GNI;	High	Low	Link to climate change and transport regulation policies; broad tax base; works best as EU rather than MS duty	Resistance from airlines and airport operators; penalises lower-income tourists
Levy on financial transactions	Small percentage of each transaction	Potentially, big, but great uncertainty	Fairly high	Low	Would be popular tax base for citizens; may dampen excessive speculation	May be too easy to avoid; very uncertain yield; risk of distortion and loss of jobs
Monetary income of central banks	Retain at EU level instead of distributing to national central banks	Up to 0.4% of GNI, varies	Low; hard to explain to citizens	Low; likely objections from CBs	Strong link to EU integration for euro area; some revenue from outside EU; fair burdens	Need for Treaty change; volatility in yield; approximates to GNI resource
Emissions trading permit auctions	Proceeds of auctions of permits; various options	Depends on nature of underlying policy	Moderate	Medium	Connection to EU policy; money being raised anyway	Regional imbalance in incidence; variable yield
Information and communication flows	Could be flat tax on SMSs; fixed charge on connections or 'bit' tax	Growing market scope for 0.25-0.4% of GNI	High for SMS especially for younger citizens	Medium	Growing and stable market; some link to Community regulatory policy and actions to curb market power of ICT providers	No convincing 'Pigouvian' argument - would distort market.

Table 4.3 Scorings used in the spreadsheet: resources capable of funding the whole budget (on a five point scale - 5 is highest)

Criterion Proposed resource	Economic efficiency	Vertical equity	Horizontal equity	Fairness between MS	Fairness in access to resource	Sufficiency of revenue	Stability of revenue	Other administ- rative	Link to EU policy	Visibility	Autonomy
VAT	3	2	2	4	2	5	4	4	3	4	1
Corporate income tax (I)	4	2	2	2	4	5	2	4	5	2	4
Corporate income tax (II)	4	2	2	2	4	5	2	4	5	3	2
Motor fuel duties	3	3	4	3	3	4	4	4	5	3	3
Personal income tax	4	1	2	2	4	5	3	2	2	4	1

Note: see box 4.1 for a description of each of these criteria.

Table 4.4 Scorings used in the spreadsheet: resources capable of funding part of the budget (on a five point scale)

Criterion Proposed resource	Economic efficiency	Vertical equity	Horizontal equity	Fairness between MS	Fairness in access to resource	Sufficiency of revenue	Stability of revenue	Other adminst- rative	Link to EU policy	Visibility	Autonomy
Flights duty	3	2	4	3	3	1	4	3	5	3	5
Levy on financial transactions	2	3	3	2	2	??	??	2	3	3	2
Monetary income of central banks	4	1	4	4	4	2	1	1	5	3	4
Emissions trading permit auctions	3	1	1	2	4	4	3	3	2	1	4
Information and communication flows	2	3	4	4	3	1	4	4	3	3	3

Note: see box 4.1 for a description of each of these criteria.

4.6A scenario-based method

Because of the obvious inertia characterizing the EU budget process, obstacles to changing the sources of revenue may be regarded as being so large, and ‘red lines’ set by the various Member States governments so numerous that only minimal changes in the overall size of the budget and in the sources of funding may realistically be predicated in the near future. Pragmatic though this position may look from an administrative or technical viewpoint, it would seem to run counter to the views of many observers and of at least two major players in the EU budget process, namely the European Parliament and the Commission, and it should be recalled that it was the heads of state and government in the European council who decided on the budget review.

Not knowing which option will prevail, we have chosen to elaborate four scenarios, two for each of the time horizons corresponding to the next periods covered by the medium-term financial frameworks (assumed to be 2013 and 2020), as well as a fifth scenario with no time indication, which has been termed ‘taxation with representation scenario’, that corresponds to what may be regarded as the ultimate step in the path of granting financial autonomy to the EU budget. These scenarios encompass not only the funding instruments and how they might evolve, but also (as part of a systemic approach) the other elements of the revenue side discussed in section 4.4. Of course, combinations of the four scenarios are perfectly possible. Whereas some of the proposed own resources could easily be introduced without treaty changes, as indeed a number of earlier changes in the funding of the EU budget were, others will necessitate treaty changes. Although this dimension should not be overlooked, as it may be regarded as a significant obstacle in the way of some of the proposed funding reforms, it should be recalled that over the past two decades, treaty changes have been relatively frequent.

The logic behind these scenarios is the following: in the ‘minimum reform’ scenarios, the dominant criteria are ‘administrative’ – sufficiency, stability, simplicity of administration and low collection costs - as well as a strong emphasis on ‘fairness’ amongst Member States, all of which imply only small changes in the current funding scheme. This would be consistent with the findings of the survey of Member State officials highlights these criteria as being more important than others, especially revenue sufficiency and stability. By contrast, in the ‘community own resource’ scenarios, and more so in the long term ‘taxation with representation’ one, the emphasis is shifted to another set of criteria, namely those that promote efficiency and confluence with EU policy objectives, though without completely neglecting the aforementioned ones.

For the choice of the sources of funding, the implications of the minimalist logic can be summarily represented with the help of our spreadsheet ‘ready reckoner’, using weights for the various criteria that reflect the first set of preferences. In this exercise, the most attractive own resources are (see table 4.5):

- The present GNI resource
- VAT
- Carbon tax

Table 4.5 Summary of scores with focus on revenue sufficiency and stability

	Economic	Pol/admin	TOTAL
Traditional own resources	63	38	48
GNI	75	77	76
Emissions trading permits	43	58	52
Monetary income of CBs	73	36	51
VAT	45	85	69

Corporate income tax	50	50	50
Flights duty	60	53	56
Carbon tax	58	69	65

However, the Member State perspective is not the only one, and it can be argued that associating revenue sources with EU policies (such as trade, the single market, monetary integration or environmental initiatives with substantial cross-border spillovers) should feature more prominently.

Without changing the scores of the various financing instruments, but giving relatively greater weight to links to EU policies and Member State appropriability of revenues (for which a high score is awarded where it is more difficult to identify the true incidence of the tax among Member States), and down-playing sufficiency and stability, the GNI resource becomes much less attractive, but raises the scores and renders more interesting (table 4.6) the following options:

- Carbon tax
- Monetary income of central banks
- Corporate income tax
- Flights duty
- Traditional own resources

Table 4.6 Summary of scores with focus on EU policy links and appropriability of revenue

	Economic Pol/admin	TOTAL	
TOR	63	50	58
GNI	72	55	65
ETS	52	50	51
ECB	75	55	67
VAT	50	80	62
CIT	60	75	66
Flights duty	60	58	59
Carbon tax	73	78	75

If, however, the administrative objectives of revenue sufficiency and stability were to be regarded as less important, while others, such as visibility to citizens, the autonomy of EU resources and link to EU economic policy concerns, were to be upgraded, then the ranking of the various funding instruments would look quite different, as illustrated in Table 4.7. GNI contributions then fare much less well, while carbon tax, ECB revenue and VAT get a high ranking under these criteria.

Choosing one amongst this list of genuine own resources might be appealing on grounds of simplicity and of gradualism in granting EU-level decision-making bodies – Council and/or Parliament - the power to directly raise revenue for the EU budget without relying exclusively on national contributions. However, selecting a mix of these tax and non-tax own resources as the major source of funding for the EU budget is probably a better option, as each single instrument will entail inter-state distributional consequences that can, if well-chosen, be mitigated by others. In addition, as argued above, budget-balance considerations would plead in favour of a mix of revenue sources.

Table 4.7 Summary of scores with focus on visibility to citizens and links to EU policy concerns

	Economic Pol/admin TOTAL		
TOR	63	46	51
GNI	73	31	44
ETS	43	31	35
ECB	70	76	74
VAT	47	80	70
CIT	53	57	56
Flights duty	60	46	50
Carbon tax	60	83	76

Even so, some form of correction or equalisation mechanism is likely to be needed to meet the overall, collective distributional objectives, as well as the specific national distributional requirements, whatever these may be. Assuming sufficient reform of the expenditure side, such that distributional concerns can be circumscribed to the revenue side, the introduction of new sources of funding would have to be complemented with an automatic, formula-based, fiscal equalization scheme. The next section elaborates on these issues.

4.7 From corrections to equalisation...

Although corrections have, hitherto, been seen as a means of dealing with net contributions deemed to be excessively high and resulting from inequalities in the geographical pattern of EU spending, an argument can also be made for revenue side adjustments that have explicit redistributive aims. Indeed, abatements of gross contributions and a re-balancing of gross contributions aimed at equalisation are, analytically, two sides of the same coin. The ability to pay principle is interpreted at present to mean that each Member State's gross contribution (before corrections) is a broadly equal share of its GNI, currently around 1%. A simple variant on this would be to have a progressive system in which richer Member States paid a higher proportion and poorer ones a lower proportion, with thresholds established by a simple indicator such as GNI per head.

However, such banding on the revenue side would only deal with gross contributions and would not reflect disparities in net contributions. It could also lead to friction where a Member State's GNI per capita is very close to the threshold, especially if it is just prosperous enough to be above it, suggesting that a different formulation would be preferable. A generalised mechanism integrating corrections and equalisation could, therefore, become a starting-point for a more considered approach to revenue-side equalisation. Member States receiving too little expenditure would have their gross contributions scaled-

down, but so too would those with low levels of income. The question then would be what sort of formula to adopt to calibrate the gross contributions.

Introducing an element of equalisation into the revenue side of the budget would, manifestly, represent a new departure, but can nevertheless be justified as part of a systemic approach. The current set-up of the EU budget includes the nucleus of a *de facto* scheme of fiscal equalization, which is largely triggered by correction mechanisms. The effect of this scheme is that relatively poor Member States pay relatively little per capita in cash terms (though as a percentage of GNI the rate is high) into the budget, relatively rich Member States that benefit from revenue side corrections also pay relatively little in cash terms into the budget (but unlike poorer Member States, also face a low burden as a proportion of GNI), while the intermediate group bears a relatively larger share of EU financing in cash terms.

4.7.1 Some conceptual distinctions

Each system of fiscal equalization has different features that can be distinguished conceptually. The first key distinction is between horizontal and vertical schemes. In the horizontal approach, money is redistributed from richer to poorer regions, while in the vertical approach money is redistributed from the highest layer of the fiscal administration to the poorer regions. In practice, those two types are hard to disentangle, since even vertical transfers are in fact financed by the richer regions, and most federations use a combination of both types.

The second key distinction is between automatic and discretionary equalization. An automatic framework is generally based on a legally binding formula that identifies differences in fiscal capacity across regions and foresees a horizontal or vertical compensation payment. A more discretionary approach is based on an overall assessment of the taxing and spending behaviour of the sub-national regions, taking into account various other factors if deemed appropriate. For the purpose of this review, only automatic schemes are relevant.

The third key distinction is within the automatic schemes between systems based on inter-regional differences in the tax base and transfers based on inter-regional differences in the actual tax income (irrespective of the base). Transfer calculations deriving from the tax-base usually apply a standard or average tax-rate to determine the sub-national government's revenue had the tax-base been comparable to other sub-national units (e.g. the Canadian system, described in appendix 6). This calculation thus puts very little or no emphasis on the actual tax-rate applied by the sub-national unit. Or, to refer to a widely used conceptual distinction, this type of equalization does not take into account the fiscal needs of the sub-national government (i.e. whether enough money is available to provide certain services), but rather whether enough money could in theory and on the basis of some assumptions be raised. Equalization payments only compensate for the difference in potential fiscal capacity, rather than actual fiscal capacity. The system seeks to equalize the per-capita tax-burden (equal fiscal treatment of equal fiscal subjects) and does not take into account the resulting expenditure needs of a sub-national government. Transfer calculations deriving from actual sub-national government revenues, on the other hand, provide compensation irrespective of the actual fiscal stance adopted by the sub-national government. Here, the expenditure need of the sub-national government is directly looked at and the actual fiscal capacity is taken into account. In its idealized form, this system sets the transfer to each sub-national government equal to the difference between its per capita income on a certain tax and the average per capita income on that same tax in the federation. Obviously, this system can only function if there is a certain degree of tax-harmonization across regions, otherwise a race to the bottom would in all likelihood be inevitable.

This notwithstanding, it should be highlighted that horizontal or vertical compensatory transfers supplement the other equalizing functions carried out by the central government, such as tax collection for the financing of centrally provided public goods (the equalizing function here derives from lower tax contributions from low-income areas to the financing of a centrally provided public good – such as defence policy), unemployment benefit distribution, and other social security services.

The case for retaining any sort of correction mechanism is, in part, that without such a mechanism one of two outcomes could be anticipated: either aggrieved Member States would block agreement on a budget deal that they perceived as assigning too much of the EU's spending to other Member States, resulting in a political crisis; or they would seek to claw back some of the 'excess' by holding out for higher levels of

expenditure from some of the expenditure programmes than were warranted by the purposes or rules of the programme. The latter was exemplified by some of the components of the 1999 agreement which granted special payments under the Structural Funds to net contributor countries, offering no convincing economic reason for these payments.

It can be argued that a correction mechanism can be an orderly way of bridging the net contribution gap, precisely because it could be made reasonably objective in design and would avoid the idiosyncrasies of *ad hoc* payments. In this spirit, a generalised correction mechanism with transparent rules and thresholds would be the preferred form, because it would have at least a veneer of greater objectivity. Yet while the introduction of any correction mechanism – generalised or not - may be less unattractive than the alternatives, it still reflects shortcomings in the design of programmes insofar as it implies that too many Member States regard the allocations as unfair, even if the net accounting balance principle is regarded as dubious.

To deal with actual (or perceived) inequities in the financial burden on Member States at approximately the same level of economic development, the Member States supported the introduction of correction mechanisms. The result of the introduction of the UK rebate in 1984 as well as of other subsequent *ad hoc* corrections and exceptions for four other net contributors agreed in 1999 and 2005 is that the EU budget is less transparent and distanced from systemic solutions.

4.7.2 Generalised correction mechanisms

In principle, if there are to be corrections as part of a systemic approach to the revenue side of the budget, they should be generalised rather than *ad hoc*, although it might be argued that a possible advantage of *ad hoc* arrangements is that they would be easier to eliminate. In its 2004 own resources report, the Commission proposed the introduction of a general correction mechanism with the following features:

- Every MS, would be entitled to a rebate on its contribution to the EU budget
- Eligibility for a rebate would be triggered when its contribution reached a threshold of -0.35% of GNI
- The refund rate would take the form of a 66 % abatement of that net contribution (the same percentage as the Fontainebleau rebate for the UK)
- The overall maximum refund available for all rebates would capped at 7.5 billion €a year.

The advantage of this mechanism is that it would treat all countries making excessive net contributions to the EU budget equally. Complexities of the current system such as the ‘rebate on the rebate’ would, in principle, be abolished, only partial compensation would be paid, and there would be an overall limit to the cost of corrections. At the same time, the mechanism’s weaknesses should not be overlooked. It corrects any kind of distributive effects irrespective of whether effects are consistent with political objectives or not. Thus, it would make no distinction between support for convergence funding which redistributes resources from rich to poor countries (politically accepted) and the distributive effects of CAP which are often unrelated to relative wealth. Nor is there any guarantee that its introduction would deter Member States from arguing for and obtaining additional individual corrections.

When assessing the Commission’s general correction mechanism, SEP/GEPE (2005), in a study for the European Parliament, noted that there are many ways to calibrate general correction mechanisms, with their focus on curbing the gap between gross and net contributions, and suggested two alternatives:

- A generalized fiscal equalization scheme whereby Member States’ gross contributions into the EU budget, before the UK correction, would be determined in function of their respective shares in the overall GNI in the EU.
- Limiting the correction scheme to the non-cohesion expenditure shares.

The Heinemann et al. (2007) report has proposed further adjustment of the general correction mechanism. Starting from an assessment that some sort of correction mechanism is indispensable as long as substantial restructuring of the expenditure side of the EU budget is not realistic, Heinemann et al.

propose the introduction of a generalised but limited correction mechanism (GLCM). Its main features are the following:

- First, the GLCM would be general because no country would be privileged.
- Second, it would be limited in the sense that only a sub-set of Community expenditures are taken into account in the correction, above all excluding those fields in which distributive consequences are politically hard to accept.

For the purpose of GLCM, two baskets of EU budget expenditures have to be defined. Basket 1 includes the policies whose distributive effects are either not measurable or are politically accepted, while basket 2 includes those policies whose distributive effects are not regarded as acceptable. The decision to assign policies to basket 1 or basket 2 will ultimately be a political decision. According to the report, 'clear favourites' for basket 1 policies are policies where spending cannot be allocated to individual countries due to the nature of payments; policies where payment flows into individual countries may be identifiable but this payment structure is no sensible proxy for the share of country benefits from that policy; and policies where payment flows into individual countries are identifiable and also indicate the countries' relative benefits from an EU policy, but where the distributive effects are generally accepted. Favourites for basket 2 policies are policies which are deemed to be desirable on grounds unrelated to distribution but which produce substantial distributive effects as a by-product which are politically not regarded as acceptable. The CAP is the clearest candidate for basket 2 since, with decoupling, it has become mostly redistributive and its distributive consequences are largely responsible for the unequal budgetary positions of different Member States with similar GNI. Moreover, other policy areas with unsystematic distribution patterns could be selected, for instance some parts of the structural policy.

In the Padoa-Schioppa report (1987) it was suggested that the net budgetary contributions could be related to per capita GNI. This would give a target against which to judge actual net contributions which vary because of uncertainties in the yield of the traditional own resources, differences between projected and actual expenditure in a Member State and eligibility for funds, as well as the shortfall in take-up of funds already committed. This need not be an exact formula but could cover a range either side of it before extra payments were triggered to bring it within the range.

Padoa-Schioppa's proposal that the net contribution for a Member State should approximate to the following where N is its net contribution as a proportion of its GDP, y is its average GDP per head and c is a measure of the average capacity of the Member States to contribute.

$$N = \ln(y^\beta) - c$$

The parameter β represents the extent to which redistribution is desired among the Member States (Padoa-Schioppa experiments with values between 0.01 and 0.1) the greater β the greater the redistribution. One advantage that this formulation has is that it deals simultaneously with net beneficiaries and net contributors. The same functional form prevents contributions rising ever faster and gives a slowly falling share of marginal incomes being paid as net contributions. Other functional forms are possible, even involving progressively rising payments, should that be felt desirable. Further variations could be added, including having minimum or maximum thresholds or introducing banding for the parameter. Nevertheless, this smooth form of transition both for the receipt of benefits and the payment of net contributions has considerable attraction to it. The width of the band of tolerance can also be debated. A possible difficulty is that, since it relates to the entire Community budget, the equalising method would tend to be a general transfer and not greater expenditure under a particular programme.

Among other proposals that have been advanced, for dealing with excessive net financial positions in a systematic and universal way, that of de la Fuente and Domenech (2001) is worth mentioning. As one which tries to assure an equitable net financial position for every Member State, notwithstanding any actual EU policy expenditure agreement. This means that Member States agree in advance on an objective criterion for an equitable redistribution from the budget. An ex-post correction mechanism ensures the achievement of the agreed net financial positions through a system of fiscal transfers whenever actual net

financial positions diverge from the agreed target. Due to the formal provision for a balanced EU budget an additional assumption is necessary, namely that the total fiscal transfers of all Member States must equal zero.

4.7.3 A synthesis of these approaches

As outlined in the report on the EU budget review prepared by the Slovenian EU budget review taskforce (2007), the Heinemann et al. (2007) and de la Fuente and Domenech (2001) proposals can also be combined and upgraded into a new proposal (see, also, de la Fuente, Domenech and Rant, 2008). Under this proposal, Member States would first agree on the division of individual categories of EU budget expenditure into two groups. The first group would include expenditure which cannot (or logically should not) be allocated (in terms of their benefits) to a specific Member State, such as administrative expenditure, expenditure aimed at external relations or the Solidarity fund. This expenditure would be excluded from calculations of Member States' net financial positions and the procedure for its adoption would be simplified and single-phased. The second and considerably larger group of expenditure would include all other expenditure. This expenditure would be included in the calculation of the net financial positions, while the procedure for the adoption of this part of the EU budget, as outlined by the Slovenian EU budget review taskforce (2007), would be carried out in three phases.

In the first phase, Member States would agree exclusively on the extent of redistribution, in absolute terms, between net receiver and net contributor countries, and as a consequence, on the 'target net financial positions' of every Member State. The primary objective of the second phase of the process would be an agreement of Member States on: individual policies to be financed from the budget, which would sum up to the overall size of the EU budget; sources of financing; and the 'spontaneous net financial positions' of individual Member States. The third of these would no longer be at the forefront of negotiations, since the 'target net financial positions' of Member States were decided on in the first phase of the process. In the third and final phase of the process, the 'spontaneous net financial positions' of individual Member States, determined in the second phase, would be brought in line with the 'target net financial positions', agreed in the first phase, through a fiscal transfer mechanism.

5 Scenarios

To bring together the different elements of the revenue side, five scenarios have been elaborated, as outlined in section 4.6. In this chapter they are presented in some detail. As usual in any scenario-based method, the five scenarios have been designed in such a way as to offer fairly contrasted routes to the future financing of the EU. Indeed, the first and third scenarios are clearly conceived as an almost status quo path, with minimum changes in the funding; the second and fourth – as well as, ultimately, the fifth – are conceived with a view to reducing the share of national contributions in total funding, and replacing them by genuinely “community own resources”. Ideally there should be a mix of different revenue sources to increase the scope for mitigating the redistributive impact of switching to tax or non-tax revenue raising instruments, along with automatic equalization devices on the revenue side of the budget.

Although each of these scenarios has been built in such a way as to secure coherence in the proposed changes, it should also be clear from the discussion the section 4.6 that hybrid scenarios, taking bits from different ones, are also conceivable if the weights put on the various criteria are altered, or if a key imperative is to avoid treaty changes. To allow for such a concern, a variant is proposed in the second scenario that is more radical on selection of resources, while not requiring Treaty change. Variants are also discussed in the fourth scenario, although as a key element in the latter is evolution in political and institutional responsibilities, it is the different sorts of Treaty change that are explored. Table 5.1, at the end of this chapter, presents a schematic overview of the scenarios.

5.1 Scenario 1: *Minimum reform 2013*

There has long been a great inertia around the funding of the EU budget, evident in the difficulties that surround any attempt to move away from a funding system dominated by inter-governmental transfers. Clearly, too, many Member States place a high priority on having a system which assures sufficient and stable funding, which the current GNI resource manifestly does. It follows that continuation of the current funding system, perhaps with some minor modification, would be a credible scenario. This is characterised as a minimum reform scenario with as few changes as possible, implying that it is close to a status quo one.

Moreover, even in a conservative vision of the future of the budget, the most contentious issues are likely to be on the expenditure side, which could mean that there will be a reluctance to countenance much change on the revenue side for fear of over-loading negotiations. In addition, a minimalist vision would point to no significant change in the size of the budget and, as a consequence, the retention of the existing own resources ceiling.

5.1.1 Principles underpinning the scenario

Since 1971, the traditional own resources have constituted a source of funding for the EU budget that has been distinguished from the VAT and GNI resources described, latterly, as ‘national contributions’¹⁵. During the 1970s, the yield of TOR was complemented by direct transfers from Member States; from 1979, these national contributions were based on the VAT resource; then after 1988, they came increasingly from the GNI resource. As explained elsewhere in this report, the trend over thirty years has been for the national contribution to increase relatively, such that it now accounts for close to 90% of revenue.

¹⁵ For example in the Commission’s *EU Budget 2006 Financial Report*

The main principle for the ‘minimum reform’ 2013 scenario is that the funding will continue to be predominantly from national contributions, but with the traditional own resources remaining in place.

Simplification is seen as a desirable principle, especially if it can simultaneously reduce the administrative burden associated with funding the Budget and make it easier for the general public to understand. Accordingly, without prejudice to the main aim of sufficient funding, simplification is desirable, and a further principle incorporated in this scenario is that the future funding arrangements should not require any treaty amendment. Given the onset of what might be called ‘treaty fatigue’, this principle is especially salient for the next MFF.

Corrections arise because the net contributions of certain Member States are deemed to be unreasonable, largely because their gross receipts of EU expenditure are lower than others with comparable levels of prosperity. By contrast, the principle of payments proportional to GNI seems to retain broad support and should remain as a principle. It follows that the rationale for corrections is unbalanced expenditure, rooted in a principle of *juste retour*.

The principle of juste retour is regarded as one which will inevitably remain significant in the medium-term.

The inference to draw is that any future resort to corrections will be the result of reforms of the expenditure side that do not deal sufficiently with the underlying causes of unbalanced expenditure. However, two aspects of established practice concerning corrections are assumed to be retained for this scenario. The first is that no correction is permanent, although this will be hard to enforce given the need for unanimity, and the second is that the magnitude of the correction is the critical aim. It follows that it matter less *how* the correction is achieved, rather than that it should yield a desired outcome.

5.1.2 Content of scenario

From the forgoing discussion of principle, it follows that minimum reform 2013 scenario will involve few changes in the current system for funding the EU budget. There will be no change in:

- The own resources ceiling
- The balanced budget provision
- Using GNI, as currently measured, as the statistical key for national contributions and keeping proportionality of pre-correction gross contributions
- Assigning the proceeds from TOR to the EU budget
- The GNI resource as the principal funding mechanism
- The residual character of the GNI resource
- The modalities of payments made by Member States

Reflecting the growing consensus that the VAT resource has *de facto* become a second GNI resource, the one significant change in own resources would be its abolition as a distinctive resource. This change would, on the one hand, be consistent with simplification of administrative burdens on Member States and could be presented as a means of making the funding side of the budget easier to explain. On the other hand, it would have only a marginal impact on the distribution of gross payments among Member States and should make it easier to calibrate gross payments in proportion to GNI.

If corrections continue to be adjudged to be necessary because only limited reforms of the expenditure side occur, the most conservative approach would be to continue to adopt ad hoc solutions valid for the duration of each MFF (that is, until a new Own Resources Decision is agreed). It is unlikely that the UK could (or would even seek to) preserve its abatement unchanged, although the political reality of unanimity means that unless there is enough progress on the expenditure side, the UK would not accept a complete end, but rather some further attenuation of its abatement. Similarly, insofar as it would be difficult to reverse the substantial collection fee for TOR which serves as one of the correction mechanism reducing the net contribution of the Netherlands, it is likely that it will remain in place in a conservative scenario.

However, with a growing number of net contributors anticipated beyond 2013 and a consolidation of the VAT and GNI resources under this scenario, some change will be needed in existing mechanisms. To deal with these developments, a generalisation of the correction mechanism based around a threshold for net contributions would be a more *juste* solution than some of those currently in place and can, therefore be put forward as an element to be developed, even in a minimum reform scenario.

It is, nevertheless, important to emphasise that any correction mechanism is a poor ‘second best’ and, in consequence, to emphasise its temporary character.

5.2 Scenario 2: Community own resource 2013

In contrast to the ‘*minimum reform 2013 scenario*’, which is based exclusively on two funding sources, TOR and GNI, the ‘*community own resource 2013 scenario*’ assumes that already for the next medium-term financial perspectives, Member States decide to start moving in the direction of granting ‘genuine’ own resources to the EU budget, while keeping most of the other aspects of the budget process untouched. As introduction of an EU tax might be politically more provocative for the immediate post-2013 period, the scenario envisages the introduction of a non-tax revenue instrument, which would not necessitate treaty changes, although a variant could be to go straight for an explicit tax.

5.2.1 Principles underpinning the scenario

The major assumption underlying this scenario is the idea that Member States accept the widely shared view that current funding is not entirely satisfactory, for reasons developed in previous sections. The main principle for the *community own resource 2013 scenario* is that the funding should no longer be based exclusively on national contributions, with the traditional own resources remaining in place, but that a first move should be made in the direction of a genuine own resource for the EU budget.

Though national contributions based on GNI remain the major funding source in this scenario, a notion of vertical equity is supposed to be introduced in this scenario, partly as a way of compensating the assumed reform of the expenditure side of the budget, which would be likely to entail a reduction in the redistributive policies on that side of the budget

The second principle for the own resource 2013 is that the structure of the call rates for the GNI resource would no longer be flat, but would become progressive.

It is also assumed that there will be a sufficient reform on the expenditure side of the budget, to enable Member States to regard the distributional aspect as sufficiently negligible and thus no longer to insist on corrections. Clearly, though, if the outcome on the expenditure side is very unbalanced across member states, it is likely that demands for corrections will be loud. This is so because the GNI contribution and the newly introduced, non-tax resource, may be regarded as almost neutral in terms of distribution.

The principle of juste retour still applies, but the overall distributional outcome of the budget does not call for permanent correction mechanisms.

For the rest, it is assumed in this scenario that all other aspects of the budget procedure –resource ceiling, multi-annual financial framework, balanced budget rule, decision-making process—are left unchanged.

5.2.2 Content of scenario

The *community own resource 2013 scenario* is similar to the *minimum reform 2013 scenario* in all respects, except the sources of funding. Under this scenario, the EU budget would therefore have the following three funding sources.

- *TOR* with the same characteristics as in the '*minimum reform 2013 scenario*'. Taking into account the main characteristics of this funding source, it is envisaged that the share of this funding source will have a diminishing trend.
- *New non-tax revenue instruments* that would contribute on average 25% of total EU budget revenue. In terms of the dynamics, the proportion of this funding source is envisaged to increase. The scenario envisages flights duty and/or emissions trading as possible funding sources.
- *GNI resource* as in the '*minimum reform 2013 scenario*', but this scenario introduces progressivity in the GNI resource as a revenue-side means of achieving distributive aims.

A variant on this scenario - which does not greatly alter the principles, but would involve more extensive change and might only be feasible in a longer time-frame such as 2020 - would be to have a much more ambitious target for the share of the community own resources, increasing it to 50%. As explained in more detail in the fourth scenario (and as previously highlighted in the Commission's 2004 own resources report), a justification for a higher share is the dual nature of the EU as a union of citizens and of Member States. The key difference between this variant and the fourth scenario is that for this one there would be no need for Treaty change

5.3 Scenario 3: Minimum reform 2020

Most of the reasoning that underpins the *minimum reform 2013 scenario* also applies to a longer-term minimum reform scenario.

5.3.1 Principles underpinning the scenario

For the most part, the principles underlying this longer-term minimum reform scenario would be the same as for its medium term counterpart. In particular, stability and sufficiency of revenue would be the dominant criteria for revenue instruments. However, a key difference can be postulated on the expenditure side, which is that reforms would have gone far enough to arrive at a consensual package of spending such that the territorial pattern of that spending ceases to be the primary consideration. In these circumstances, a *juste retour* approach would no longer be a core principle.

Instead, a more subtle approach to 'ability to pay' as a principle can be advanced as a basis for revenue raising. This would entail some effort to make payments progressive rather than just proportional. The reasons for moving in this direction are, first, that an element of progressivity is a 'typical' attribute of a fiscal system; and, second, that having such a system would help to play down the emphasis on *juste retour*, and legitimate an element of equalisation. This approach would be more likely to succeed if a higher proportion of spending is on EU level public goods, as opposed to distributive outlays.

A second core principle of the scenario is that corrections should, recognising that they are always going to be anomalous, have been phased out.

5.3.2 Content of scenario

The minimum reform 2020 scenario still involves no change in:

- The own resources ceiling [or at most only a very small increase]
- The balanced budget provision
- Using GNI, as currently measured, as the statistical key for national contributions
- Assigning the proceeds from TOR to the EU budget
- The GNI resource as the principal funding mechanism
- The residual character of the GNI resource
- The modalities of payments made by Member States

In contrast to the minimum reform 2013 scenario, the 2020 scenario assumes that gross contributions to the budget will shift towards progressivity, either by having a series of bands for gross contributions from the GNI resource - perhaps with call-up rates of 0.8, 1.0 and 1.2 – or by having a smoother progression schedule where the call-up rate increases to reflect higher relative GNI per capita, although with a floor and a ceiling – of say 0.6 and 1.4.

While all corrections, including the UK abatement, are assumed in this scenario to be discontinued, some reserve power to introduce corrections annually in response to asymmetric shocks might be included.

5.4 Scenario 4: Community own resource 2020

Although most of the history of European integration has been dominated by incremental changes rather than big institutional leaps, the prospect of a fundamental overhaul of the EU budget within the next 12 years should not be excluded *ex ante*. It could be worthwhile to recall that in 1987 the introduction of a common currency in 10 EU Member States in 1999 didn't look like a very likely prospect.

The *community own resource 2020* scenario contains the major elements that would bring the EU budget in line with the present state of political integration: it would give rise to what could be labelled an ideal type of budget for the *sui generis* type of system that the EU represents, combining Member State based contributions, direct EU taxes, and non-tax revenues that should belong to the EU budget given their truly 'common' European character (such as the revenue from auctioning ETS and/or the ECB's monetary income).

One of the features distinguishing some versions of this scenario from the three previous ones is the necessity of changes to the EU Treaties. While some might argue that considering Treaty changes at the present juncture does not look like a politically very palatable solution (taking into account the difficult discussions on the Treaty of Lisbon), one should not overlook that the average time-span between two new EU Treaties in the past 20 years has been slightly less than six years. This implies that a new Treaty revision during the eleven year time-span between the entering into force of the Treaty of Lisbon in early 2009 and 2020 looks rather likely in the context of the lessons of the historical record.

5.4.1 Principles underpinning the scenario

One of the main distinctive features of the *sui generis* characterisation of the EU is the principle of double representation: representative democracy is reached in parallel through Member State participation *and* citizen participation in the legislative process, (whereas in a more federal context, citizen participation becomes the prime source of legitimacy). In the present EU framework, this dual representation – which is spelled out in Article 8A of the Lisbon Treaty – is based on the joint legislative action of the EU Parliament and the Council.

To reflect this dual source of representation, the EU budget in 2020 should receive financing at the rate of 50% from direct citizen contributions (through community own resources) and 50% from Member State contributions. We consider that a more ambitious financing of the EU through pure (i.e. 100%) EU-tax based citizen contribution would not be in line with the main principles of the current state of integration.

Principle 1: The main principle for the own resource 2020 scenario is that the funding will be split evenly between national contributions and genuine own EU resources.

In line with this dual character of EU financing, the European Parliament should obtain the right to select and set taxes. The objective would be that the proceeds from those taxes could finance half of the EU budget. Opting for a half share could be regarded as somewhat arbitrary, but can be defended on the grounds of the dual character of the EU (described above) and would represent a substantial change. It is also worth recalling that, even in the 1970s when the TOR were the main resource, they were complemented by sizeable national contributions. That said, the issue is not whether there should be a *precise* 50:50 split between national contributions and community resource, so much as to have a balance between the two that reflects the dual nature of the Union. Thus 60:40 or 40:60 would also be consistent with the normative position, whereas we argue that 90:10 is not. Variants on this scenario might, therefore, include aiming for a somewhat higher share of citizen contributions. While the tax-setting powers should still be based on co-decision, thus involving the Council, the last word in this procedure should be with the EP. This quite fundamental change in the EU's architecture would foster the position of the EP as the prime source of direct representation in the European context.

Principle 2: Member State contributions to the EU budget are progressive, reflecting the relative prosperity of the countries.

The EU budget should also comprise those types of non-tax revenue that directly derive from the exclusive competences of the EU. In the present allocation of tasks between the EU and the Member States, this would include revenues from:

- the common trade and agricultural policies (the present TOR);
- the common monetary policy (i.e. the ECB's monetary income).

Should other currently shared or exclusive Member State competences be transferred to the EU level by 2020, any possible revenues from such transfers should be allocated to the EU budget.

Regarding ECB monetary income (see also appendix 5, in particular on how to deal Member States outside the euro area) a Treaty change would be needed to bring the current set-up of the relationship between National Central Banks and the ECB in line with this new framework. It is important to stress that transferring the ECB's monetary income to the EU budget would in no way put at risk the ECB's independence and should preserve the ECB's financial autonomy. All independent central banks in the world, including the most independent ones, transfer their monetary income to their respective finance ministries (this was, for example, the case of the German Bundesbank, whose independence has never been questioned), although Belgium is an example of a Member State in which there are also private shareholders. While the preferred option would be to go for 'big bang' Treaty change in the articles bearing on the budget, an obstacle to changing the Treaty provisions on monetary income – which would be required to assign monetary income to the EU budget – could be continued dissonance between EU and euro area membership. A watered-down variant of this scenario could, therefore, be envisaged in which the monetary income element is replaced by a higher call on explicit EU taxes.

Principle 3: The European Parliament obtains the right to set and raise EU taxes.

Though this more modest variant of the 2020 Community own resource scenario could be implemented without treaty changes, it would be more consistent with the spirit of this scenario to accord a right to raise taxes to the European Parliament. This would require a functioning definition of a common tax base.

Corporate taxation looks like the most appealing candidate for an authentic EU tax. An alternative could be an EU carbon or energy tax. Since all direct taxes would not only generate redistribution between citizens, but possibly also between regions or Member States, the institutional provisions underlying the choice of the tax instrument and in particular the role of the Council in contributing to this decision would have to be designed with great care.

In order to match the EP's taxing power with an appropriate scheme of responsibility, the current Treaty provision requiring balanced annual accounts could be relaxed, although this would be bound to meet strong opposition from many Member States. Nevertheless, if Treaty change is on the cards, it could be presented as part of a reform package, with measures to reassure those concerned about fiscal discipline through strict limits on the extent of any departure from balance, either by stipulating a maximum annual deficit or (as canvassed by Buti and Nava, 2008) by obliging the budget to be balanced over the course of an MFF. Fiscal rules of this sort are in use in other polities.

There are two opposite challenges to be addressed, at this juncture, for this scenario combining EP taxation and Member State contributions. One is to make sure that the overall tax burden will not rise, i.e. to ensure that Member State contributions decrease as a function of the taxes raised by the EU. The other is to deter Member States from decreasing their contributions too much. An effective way to achieve this would be to introduce a decoupling of expenditure and financing decisions. The MFF could focus on the expenditure side and leave the financing of the respective shares to the Council and the EP. As in the 'minimum reform 2020' scenario, in these circumstances, a *juste retour* approach would no longer be a core principle, as the 'ability to pay' principle becomes the core feature of revenue raising.

The financing of the Member State component in the budget would become progressive, moving beyond the existing principle of proportionality. No country-specific correction mechanisms would be kept, allowing for a predictable rule-based scheme of calculating Member State contributions.

Principle 4: Non-tax revenues from exclusive EU's competences are allocated to the EU budget – this mainly implies transferring the ECB's monetary income to the EU budget.

Under more ambitious variants of this scenario, the own resources ceiling would become less binding. The budget would be expenditure driven. The overall volume of the EU budget should thus reflect the actual tasks carried out at the EU level.

5.4.2 Content of scenario

Summarizing the approach, the *community own resources 2020* scenario involves the following changes:

- Reducing the share of the GNI resource to 50% or less of the EU budget
- Creating genuine own EU resources amounting to at least 50% of the EU budget
- Making GNI contributions progressive
- Creating a taxing power at the level of the European Parliament
- Transferring the ECB's monetary income to the EU budget
- Relaxing the own resources ceiling
- Relaxing the balanced budget provision

A somewhat more modest variant of this scenario would include only the first three elements and could be implemented without treaty changes. In contrast to the Community own resource 2013 scenario, the more ambitious variant of the Community own resource 2020 scenario would introduce elements requiring

changes to the Treaty. Given that Treaty changes would in any case be required to implement this scenario, the scenario does not contain any built-in restrictions. Anything that would look politically feasible 10 years from now could be included in this type of scenario, with the ‘taxation with representation scenario’ (sketched out below) as the most extreme outcome.

5.5 Beyond 2020: ‘Taxation with representation Scenario’

This much longer-term scenario is based on the assumptions that all of what may be regarded as major current obstacles to wholesale reform of the revenue side of the EU budget will have been lifted after 2020. In other words, in this long-term scenario, we have attempted to weigh the various criteria listed in the above analysis in a consistent way, notwithstanding potential oppositions or ‘redlines’ that would appear to make such changes implausible in the short run. In particular, the implementation of the funding schemes described in this scenario may require treaty changes and/or institutional reforms, inasmuch as the recently adopted Lisbon treaty appears to have hardened some of the budgetary procedures that our appraisal of current practices has identified as undesirable or indeed harmful.

Though obviously instructed by the unhappy fate of the McDougall Report (EC, 1977), our reasoning has been guided by similar considerations, essentially efficiency and equity of budgetary outcomes, taking inspiration both from economic analysis and from funding practices in existing federations. Although the expenditure side of the EU budget is not explicitly part of this scenario, it has proved necessary to characterize, at least broadly, the orientations taken on expenditures: indeed, a scenario for the long run needs to rest on assumptions with respect to the overall size of the budget and to the composition of expenditures, with a view to distinguishing those items that are essentially public goods from those that have a distinctly redistributive objective, even though such a distinction may prove uneasy in some cases.

5.5.1 Principles underpinning the scenario

This long-term scenario is built upon the idea that the EU budget will eventually become a genuine instrument for the implementation of common policies and the pursuit of collective goals, rather than simply the repetition of status-quo and mostly redistributive policies, with all players confined by *juste retour* considerations. Such assumptions do mean that the overall size of the budget and the mix of expenditures no longer have to be constrained by the current size and composition of the budget and indeed will have to change; but they do not imply that Member States will be willing to accept a massive increase in the size of the budget or that distributive outcomes of the budget will no longer be important. In this respect, this long-term scenario implicitly strikes a balance between desirable and feasible evolutions: contrary to the McDougall report, we do not expect the EU to become anything close to existing federations in the foreseeable future, but we assume that the major policy priorities that have been flagged in recent years will be translated into collective actions carried out at least in part via the EU budget. In addition, it is also assumed that by 2020 most current EU members will have joined the euro area, and that it may therefore be desirable to include macroeconomic stabilisation considerations into the design of the EU budget.

It may be argued that if the EU budget is reformed in such a way that expenditures are mostly geared to the funding and provision of European public goods and common policies with a European value added, then many of the objections to increasing the size of the budget will be lifted, or at least mooted. But foreseeing anything beyond a doubling of the current size would appear far-fetched. We therefore take for granted that even if there is a move in the direction of more ‘Community’ policies, subsidiarity and decentralisation principles will still prevail and dictate a relatively modest increase in the size of the budget: 2 to 2.5 per cent of GNI can already be regarded as a very ambitious target. This might approximately correspond to what is required for carrying out simultaneously the major expenditure implications of the Lisbon strategy, the evolving energy strategy and the environmental policies, the external policies of the EU, and some security goals. Not all of these have to result in centralized competences and increased EU level spending, insofar as some form of decentralised provision of European public goods with fiscal incentives from the EU budget –elsewhere termed ‘Pigouvian

federalism' (Le Cacheux, 2007)—may be more appealing in the EU context, and would result in a much smaller central budget than what may be observed in existing federations.

Beyond 2020, it is highly likely that TOR will have shrunk to an even smaller share of EU GNI: given the current and prospective situation with respect to world trade and world agricultural prices, receipts from tariffs and agricultural levies can be expected to decline further in the coming decade and it is assumed that the current VAT resource will have gone. Amongst existing resources, therefore, only GNI contributions would be left to finance a larger EU budget with a more pronounced public goods orientation and maybe more ambitious goals in terms of inter-state distribution and in terms of macroeconomic stabilisation – to be understood both as overall automatic stabilisers for the whole EU economy and, in line with analyses in the tradition of Optimal Currency Area (OCA) theory, as resulting in automatic regional stabilisation in the face of asymmetric shocks.

Given the objections to an exclusive reliance on GNI contributions that have been analysed in the previous sections of this report, this long-term scenario assumes that a significant fraction of the increased financial requirements of the EU budget will come from other instruments, probably a mix of tax and non-tax own resources (going further than the ECB revenue and/or ETS revenue, see *Community own resources 2020 scenario*).

The major source of the EU budget funding should come from genuine own resources.

With regard to the most attractive candidates for an EU tax, all recent studies point to similar conclusions: the choice is essentially amongst three instruments - VAT, corporate income tax, and some form of ecotax or carbon tax. Given current priorities (the Commission proposal for a common, consolidated corporate tax base, and the recently unveiled strategy for fighting climate change), it may be argued that a mix of the latter two might strike a reasonable balance between the various requirements – sufficiency, compatibility with the single European market, incentive-compatibility and subsidiarity. Currently, each of these two instruments provides aggregate average yields of about 2.5% of GDP, so each one would be almost sufficient, assuming it becomes the only source of financing for an increased EU budget and only a fraction of their current rates would be necessary to fund the current maximum level of the EU budget.

Choosing the corporate income tax with a common consolidated base would have the advantage of removing many existing tax distortions in the functioning of the single market and of having to agree a common tax base. It could also be presented as consistent with promoting corporate choices in line with the Lisbon strategy, while having a funding instrument that is responsive to cyclical economic fluctuations and spatially uneven shocks.

An eco-tax or a carbon tax would probably be less satisfactory in terms of automatic stabilisation – though not entirely inefficient in that respect - but would have the advantages of a sufficient yield and of providing an incentive scheme that would be in line with the decentralised pursuit of common objectives in terms of the fight against climate change.

Either alone, or in combination, the proposed tax and/or non tax revenue instruments should provide sufficient funding to cover most or all expenditures.

Though in principle each of these two tax instruments would be sufficient alone, the two might be combined if one wants to pursue several objectives, or to mitigate some of biases introduced by each of them in terms of distribution and of burden-sharing amongst Member States, or to spread the burden over different categories of private agents, or indeed cope with the potential variability of receipts.

In the case of a European carbon tax, it might be envisaged to couple it with non-tax receipts from the sales of ETP, which would constitute an additional source of revenues and would also lead to a more efficient and coherent combined policy to guide the price of carbon.

The budget balance rule might be relaxed. Or, if it has to be maintained, a ‘residual’ source of funding, -- such as the current GNI resource, scaled down— or some form of ‘rainy-day fund’ should be used to ensure yearly balance in spite of possible fluctuations in revenue from tax and non-tax instruments.

Is a deficit allowed for the EU budget, and if not, how is the potential discrepancy between expenditures and receipts to be covered? If the first solution is deemed not to be palatable in the current context, one is left with the necessity to find a balancing item. Two possibilities may be considered: keeping a mechanism close to the currently existing national contributions based on GNI, which would be simple and efficient, but would mean prolonging the use of a GNI resource; or setting the rate(s) of the EU tax instrument(s) in such way as to generate receipts in excess of needed revenue in good times, the surpluses being used to cover receipts shortfalls in bad times, via the constitution of some form of ‘rainy day fund’¹⁶. A more iconoclastic third option might be to use central bank monetary income as the residual resource.

Progressiveness in the residual GNI contribution could also be part of a fiscal equalization scheme.

Under the current funding scheme, the pre-correction revenue side is almost neutral, in terms of inter-state distribution. It may be argued that more cohesive EU implies more inter-state redistribution, i.e. an overall burden-sharing scheme that result in total levies on national economies being progressive with respect to GNI, or per-capita GNI. In addition, introducing genuine tax instruments at the EU level would generate a redistribution of financial burdens compared to the current situation.

Even though allocating financial burdens to individual Member States may be a complex, and to some extent economically meaningless, task in cases in which EU tax instruments constitute the bulk of revenues in the EU budget, political-economy considerations might warrant an overall burden-sharing scheme that results in some progressiveness, in terms of total average tax burden as a share of national GNIs. Again, this would imply keeping the national, GNI contributions, in order to organise an explicit equalisation scheme, such as is operated in a number of existing federations.

In order to mitigate the possible distributive consequences of the tax instruments, an automatic equalisation mechanism would be operated but exclusively on the revenue side of the budget, notwithstanding the opposition to such an idea revealed by our survey.

In this long-term scenario, the implicit assumptions with respect to expenditures are such that we do not foresee the necessity for maintaining a correction mechanism based on some calculation of *juste retour* or net national contributions. Of course, this implies that the bulk of expenditures is regarded by Member States as essentially European public goods, with minimal redistributive effects. If it were not the case, and in case some of the redistribution were to be continued on the expenditure side of the EU budget, it might be appropriate to attempt a distinction between the two kinds of expenditures, and allow an automatic correction mechanism based on calculations of net national balances excluding expenditures on European public goods. Though obviously more reasonable than the current rebate calculations, such a correction mechanism would not be entirely satisfactory, insofar as the distinction between public goods and distributive tools is always somewhat blurred in practice.

Treaty changes would be required.

Instituting genuine EU tax instruments for funding the EU budget will imply significant changes in the institutional structures with regards to decision-making over the budget. First, it clearly means that the European Parliament would have a more important role, probably along-side the Council, in setting tax rate(s). Whether it should also be involved in the definition of the tax base(s) is a more open issue, considering current practices in existing federations and Member States. In addition, the Multi-annual

¹⁶ Such funds have been regularly canvassed in debates on macroeconomic stabilisation; for a recent description, see Pisani-Ferry et al. (2008)

Financial Framework (MFF) would be reformed to the minimum period stipulated in the Lisbon Treaty one important element of consistency would be to reduce the time frame to five years, in order to have it coincide with the mandate of the Parliament and the Commission.

5.5.2 Content of scenario

Summarizing the approach, the 'taxation with representation' scenario involves the following changes:

- Creating a taxing power at the level of the European Parliament
- Having genuine own resources, in particular EU tax instruments, represent the bulk of the EU budget funding
- Transferring the ECB's monetary income to the EU budget
- Relaxing the own resources ceiling and increasing the size of the budget
- Introducing a general equalization mechanism on the revenue side
- Relaxing the balanced budget rule or having a balancing revenue source, either a residual GNI resource, or a 'rainy-day fund' fed by tax and non-tax instruments in 'good' years.

Table 5.1 Overview of scenarios

	2013		2020		Beyond 2020
	<i>Minimum reform</i>	<i>Community own resources</i>	<i>Minimum reform</i>	<i>Community own resources</i>	<i>Taxation with representation</i>
1. Funding instruments	GNI + TOR	GNI + TOR + 25% (50% in a variant) from 'genuine OR' (tax and/or non-tax)	GNI + TOR	GNI + TOR + 50% at least from 'genuine OR' (tax and/or non-tax)	Bulk or all from 'genuine OR' (tax and/or non-tax)
2. Revenue sufficiency	No change: GNI resource as residual; Automatic balanced budget	No change: GNI resource as residual; Automatic balanced budget	No change; GNI resource as residual; Automatic balanced budget	No change: GNI resource as residual; Automatic balanced budget	Either balanced budget or balancing resource (GNI) or 'rainy-day fund'
3. Burden sharing amongst Member States	Simple, flat GNI key	Some progressivity (i.e. from .8 to 1.2% of GNI)	Some progressivity (i.e. from .8 to 1.2% of GNI)	Some progressivity (i.e. from .8 to 1.2% of GNI)	Formula-based revenue equalization, on revenue side only
4. Correction mechanisms	Sunset clause, rule-based correction	Sunset clause, rule-based correction	Sunset clause, rule-based correction	No correction	No correction
5. Institutional aspects	No change	Parliament co-decision on new resources, with or without treaty change	No change	Parliament co-decision on new resources, with or without treaty change	Parliament co-decision on new resources, with treaty change
6. Would Treaty change be needed?	No	No	No	Yes	Yes

6 Conclusions and recommendations

The EU budget is, inevitably, negotiated as a package rather than as separate exercises on, or within each of, the revenue and expenditure sides. It follows that only a systemic approach embracing both sides can offer a full understanding of how the budget could or should be re-cast. That said, the experience of the negotiations over the last twenty years is that net balances have become the main organising principle for the budget and, despite the regular assertion that net budgetary flows are only a relatively small fraction of the much more extensive net benefits of EU membership, are a factor that is bound to remain prominent. In keeping with the terms of reference, this study has confined itself to the systemic analysis of the revenue side, a focus which means that many of the conclusions and recommendations from this study are contingent on what happens on the expenditure side.

A first conclusion is that the current own resources system has a number of important qualities that invite caution in proposing radical change, and that these are reflected in the views of many Member States officials as revealed by our survey and in discussions with other interlocutors held during the course of the research. Above all, it ensures that funding for the EU budget is sufficient and stable. These properties of the current system, *inter alia*, make it straightforward to fulfil the obligation to balance the budget each year. The survey results indicate that the medium-term financial framework is generally assessed as an appropriate one for budgetary planning, while administrative procedures for assuring the flow of revenue work well. The successive packages of own resources and associated correction mechanisms can be adjudged to have gone far enough to have enabled budget settlements to be reached, although whether the outcomes have been armed truces or genuine peace deals is a moot point.

The principal objections to the current system on the revenue side concern its complexity (especially in the manner in which corrections are put into practice), its lack of visibility to the citizen and disquiet about the cash-flow implications for some Member States. There appears to be a consensus that the VAT resource should be discontinued, but conflicting views on whether a much bigger proportion of the budget should be funded by genuine community own resources. In this regard, discussions with national parliamentarians have confirmed the ‘No EU tax’ message garnered by Lamassoure. In addition, there are some reservations about more technical issues such as the reliability of the data used to calibrate contributions or the way key indicators such as GNI are measured. However, these more technical drawbacks of the current system are not generally seen as being critical, so much as features that might eventually be improved, even if at the margin some possible adjustments could result in minor differences in the burden borne by different Member States. Moreover a strong message that emerges from the survey – even allowing for the fact that the respondents are mainly from finance ministries and, thus likely to have certain (often conservative) biases¹⁷ - is the pragmatic conclusion that the smooth functioning of the system matters more than the purity of its principles.

Yet, although the current system, with some adjustments, could continue to serve for the foreseeable future, there are also compelling arguments for a different approach. This would have to deal with the problem of corrections and should be seen as a package of measures rather than piecemeal change. A key methodological conclusion from the study is that the best way to proceed is to start by deciding what the over-riding policy preferences are for EU own resources, rather than to engage in an ugliness (beauty is not a suitable metaphor) contest that selects the least unattractive option. In this approach, the various criteria on which resources can be judged are not really in dispute, but what is contested is how much weight to give to each of them: in other words, it is the normative dimension that is critical. The study has argued that the largest weight should be given to criteria that reflect what today’s EU is, with the implication that other criteria – even though the case for including them on grounds derived from tax theory is not disputed – should be down-played. Thus, we argue that fairness between Member States should have a high priority, but (especially with the low total funding requirement of the EU as a proportion of total taxation), inter-personal equity should not.

As regards allocative effects, we argue for ‘Pigouvian’ resources, capable of yielding a double dividend, that contribute to the realisation of EU policy goals (notably in countering climate change), and also

¹⁷ Including strong support for the balanced budget requirement

favour resources (such as corporate income tax) for which the fairness of the appropriation of the tax by individual Member States is open to doubt. It should be recalled that one of the reasons for assigning customs duties to the EU level is, precisely, that imports which clear customs in a port of entry are not necessarily consumed by citizens of that country. In the same way, the corporate profits of a company that pays tax in one Member State will often be derived from sales in other Member States. A further point to make about customs duties that may apply to a number of other potential resources is that even if the collection costs are high (thereby flouting an administrative criterion for a 'good' tax), the duty is being imposed anyway and is part of a broader policy (trade policy). Thus even if something like the auction of emissions trading permits is adjudged to fare poorly on certain criteria, such as administrative grounds, the fact remains that it is a source of revenue that will already be in place by 2013 and thus imposes no *additional* cost in being assigned to the EU.

6.1 Theory and practice – the EU as a *sui generis* entity

Most of the relevant academic and policy literature stresses the superior incentive properties of obliging governments to raise what they spend, rather than relying on transfers from other levels of government. Seen from the perspective of public finance theory and the nostrums of fiscal federalism, therefore, the growing share of national contributions as opposed to authentic Community resources in EU revenue has been a march in the wrong direction. Yet the fact remains that the EU level is not recognisable as a federal government as commonly understood, nor is it just another international organisation; this *sui generis* character means that much of the experience in federations or international organisations is, at best, of only tangential relevance to the EU's finances. As a level of government and as a budgetary authority, the EU has very little autonomy compared with that afforded to regional or local governments in multi-level governance systems elsewhere in the world.

Some insights from the academic literature may nevertheless have salience for reform of the revenue side of the EU's finances. First, the incentive to spend efficiently and in the common interest, rather than to engage in 'pork barrel' politics tends to be enhanced when a government body is spending its 'own' resources and is directly accountable for them. Certainly, the GNI resource in a strictly legal sense is an own resource, but analytically it is a transfer rather than a resource over which the EU level directly exercises a power to tax. A second insight from the literature is that having taxes at the highest level of government has to be complemented by appropriate checks and balances to prevent exploitation of minority tax payers. Third, taxes at a higher level can be justified to avoid excessive tax competition, or to facilitate necessary cross-border harmonization and ensure better allocation of resources in the EU, economies of scale in dealing with a tax and reduced compliance costs.

6.1.1 Correction mechanisms

Disquiet about the magnitude of net contributions has been the main driver behind the proliferation of correction mechanisms. That they have, ultimately, achieved their purpose is testified to by the fact that a settlement of the budget was eventually obtained in 2005 (as it was in 1999), albeit one which reflects successive rounds of brinkmanship and dissipates much political energy. Most protagonists would agree that it is not an edifying process, suggesting that EU budget-making might be added to the aphorism that citizens should not enquire too closely into how sausages or laws are made.

6.1.2 Funding of international organisations – no useful parallels

Examination of the financing of international organisations does not suggest any innovative solutions for the EU, again highlighting the *sui generis* nature of the EU. Organisations such as the UN, the IMF or the OECD, apart from being much smaller than the EU are funded either by a GNI-related resource (already in place as an EU resource) or in a way that, realistically, is beyond the pale for the (the idea of establishing an endowment, the income from which would fund expenditure). To the extent that there are lessons, they are that a club membership fee based on the economic size of the club member works, but has the two side effects of leaving the organisation vulnerable to non-payment (often for political reasons) or giving the largest contributors a say in decision-making that can be abused.

6.2 Scenarios for the evolution of the revenue side

Although there is little enthusiasm for radical change of the revenue side at present, in the medium- to longer-term, more extensive change could be contemplated. Possible reforms have been presented in section 5 as scenarios, incorporating two principal dimensions: first, the time-scale, with reference points that correspond, roughly, to the next and subsequent MFFs; and, second, the assumed extent of change in the financing arrangements, distinguishing between ‘minimal reform’ and more radical changes that involve ‘community own resources’. A scenario that is given no time-scale is also considered, loosely labelled ‘taxation with representation’ to represent what the funding arrangements could be if the EU level of government were to move much more emphatically towards being a federal level with attributes that characterise certain federal entities. It is presumed that the TOR will be a feature of all scenarios and that the current VAT resource is simply conflated with the GNI resource.¹⁸

The main variable elements that enter into a systemic approach to the revenue side are as follows:

- *The proportions of revenue raised from transfers from Member States*, assumed to diminish over time and with the ambition of the scenario.
- *The nature of ‘genuine’ own revenue instruments (tax or non-tax)*, which may vary over time, and, in the most radical scenarios may give greater weight to rationales for tax (or other) instruments other than pure revenue raising – Pigouvian aims for example or the various political elements discussed in section 2.
- *The degree of progressivity of revenue raising*, with more openness to move away from proportionality in the more scenarios that have the most extensive reforms. This may include whether any explicit equalisation comes in.
- *Means of dealing with revenue surpluses or shortfalls*, which might entail a need for Treaty change if the principle of balanced annual budgets is altered.
- *The own resources ceiling*, with an expectation that it will be less binding in the ‘community own resources’ and ‘taxation with representation’ scenarios.
- *Other procedural issues*, such as where the power to set taxes lies, budgetary timetables, statistical issues or voting (unanimity or not).

By introducing various combinations of these variable elements, the following five scenarios have been articulated:

- The **Minimum reform 2013 scenario** is broadly a status quo one with only the disappearance of the VAT resource to distinguish it from 2007-13. It is also the one most likely to need a continuation of some correction mechanism.
- The **Community own resources 2013 scenario** would entail the introduction of a new own resource which might be an air travel tax or the use of emissions trading to boost true community resources to a minimum of 25% of revenue, with the balance coming from the GNI resource and TOR. It would not need any residual funding provision, nor would it require Treaty change, but might see the introduction of progressivity in the GNI resource as a revenue-side means of achieving distributive aims. A variant would be to aim for a higher proportion of community resources, though taking longer to adopt it.

¹⁸ Some have floated the suggestion to abolish the TOR and to replace them with an increase in the GNI resource. The main reason underlying this proposal is the alleged administrative burden associated with raising the TOR. We do not agree with abolishing the TOR for two reasons: first and foremost, the TOR derive directly from exclusive competences of the EU and should thus be a revenue source for the EU – and be it only for political reasons; second, we believe that Member States still would have to put in administrative efforts in collecting those revenues even if the money stayed in the domestic context.

- In the **Minimum reform 2020 scenario**, the GNI resource would again be the main funding source, but progressivity would be introduced, while corrections would be excluded. No Treaty changes would be required.
- The **Community own resources 2020** scenario would aim for a longer-run steady state with a fifty-fifty split between the GNI resource (in deference to the continuing inter-governmental character of the EU) and the balance from TOR and more extensive own taxes using instruments such as corporate taxation (which would require a common corporate tax base, which is assumed). Progressivity would be adopted for the GNI resource. Treaty change would be needed for some options for funding resources, if more political margin were to be introduced for the European Parliament in taxing powers and/or if a shift away from annual balance in the budget were to be introduced. However, many of the key elements of this scenario would not necessitate Treaty change.
- In the **Taxation with representation** scenario, the main difference from the previous scenario would be close to 100% funding from true (i.e., non-intergovernmental) own resources, with only a limited provision for a residual element perhaps from national contributions, possibly together with more explicit equalisation

6.3 Possible reconfigurations of components of the revenue side

From extensive dialogue with representatives of Member State governments and Community institutions as well as the survey of Member State officials, the study team has been struck by the lack of appetite for far-reaching change in the mix of own resources in the short-term, although apart from the five current beneficiaries from corrections the other half of the equation would be an end to the ad hoc corrections. This need not preclude examination and possible implementation of alternatives to the current system, and this section summarises our preferred way of proceeding.

We stress that there will never be an ideal autonomous instrument for funding the EU's spending, but also that there are many options that would achieve reasonably good results, several of which have been examined in this report. Any change would, however, be likely to add to the administrative challenges of funding the budget in several ways. First, so long as the EU is required to balance its books each year, a mechanism for dealing with any surplus or shortfall in the revenue raised would be needed. This could be resolved fairly simply by rolling over the imbalance to the following year, but this approach would only be viable if the margin were inconsequentially small. Larger or more persistent imbalances would require a different approach, and a propensity to shortfall would require a residual resource such as the current GNI one. Second, there are costs of collection that would have to be covered and any possibility of evasion or avoidance would have to be forestalled effectively.

Moreover, the choice of a potential new resource raises a variety of political, institutional, and administrative challenges. Who should have the power to tax, including the setting of rates and the definition of coverage? Should a tax assigned to the EU level be one that more than assures sufficient revenue, implying a need for a means of dealing with a surplus? Is a single tax or non-tax resource to be preferred or should the burden be spread across two or more instruments? If the revenue from assigned resources is insufficient, is there a need for a residual source of revenue or a capacity to borrow?

6.3.1 Alternative own resources

The search for an additional resource that would be genuinely 'owned' by the EU level has been going on since the last major reform of the EU budget in 1988 and will, no doubt continue for many years. There is no shortage of candidate as alternatives to the present system, and a variety of tax or non-tax instruments have been canvassed for assignment to the EU level. Any viable option would have to fulfil a number of criteria which have been exhaustively debated over the years.

However, a conclusion of this study is that it is not sufficient just to enumerate these criteria and then to see which possible resources tick which boxes. Instead, a ranking of the candidates also has to be sensitive to different possible weights attached to the different criteria. Such a weighting is a normative exercise rather than one which can be done in a largely objective manner. Many interlocutors regard revenue sufficiency as the most important criterion, a preference that points towards the existing GNI resource. If, however, a strong connection with EU policies is put forward as a critical criterion, then the ECB's

monetary income, a tax associated with the single market, and/or an environmental tax could be seen as more optimal. In terms of visibility, a new resource based on a hitherto unexploited revenue base might have more of an impact than tacking on an EU mark-up to an existing tax.

It follows that a single ranking of preferred options cannot be drawn-up purely on the basis of objective criteria, because any such ranking may vary according to the weight attached to different criteria. In other words, the choice of a new resource depends both on the properties of the resource under consideration and the preferences of decision-makers. Any selection of potential new resources also has to take account of the amount of revenue that needs to be raised, as some prospective instruments would make sense for a small revenue requirement, but not if much more were needed, and vice versa.

It also follows that proposals for reform of the revenue side have to reflect developments on the expenditure side, both in terms of the size of the revenue requirement and the extent to which expenditure patterns result in geographical imbalances in the pattern of spending that trigger demands for corrections. For an EU budget that remains at around the present level (that is, somewhere between the current level of 1% of Community GNI and the own resources ceiling of 1.24%) and assuming that the combination of the TOR and a GNI resource continue to contribute between 50% and 80% of the revenue requirement (as set out in even the two 'community own resource' scenarios, the revenue requirement from a new resource (or resources) would be in the range of €23-72 billion at 2007 prices and 2007 GNI¹⁹.

6.3.2 Choice of particular resources

Pulling together these lines of argument, the conclusion of this study is that of the eleven groups of criteria shown in box 4.1 above, those that matter most for a system of EU own resources are (in no particular order):

- Fairness between Member States in GNI terms
- Fairness between Member States in appropriating the revenues from the resource
- Sufficiency to meet a limited share of the total funding for possible new resources, but also to ensure (via a resource with residual properties) that the budget can be balanced
- Link to EU policies (especially in allocative effects, such as combating climate change)
- Visibility and transparency
- Autonomy, both for the EU as a distinctive budgetary authority and in relation to the problems associated with sharing of tax bases

A system of own resources that reflects a combination of these criteria - bearing in mind that different stakeholders will opt for differing preferences among these criteria – points to some possibly surprising conclusions:

- A leaning towards a distinctive resource that reaches a wide base of consumers and chimes with EU policies:
 - Duty on flights or excises on motor fuel
- Opting for revenues that accrue anyway from EU policies and for which much of the cost of collection is incurred to achieve the aims of the policy, rather than (directly) to raise revenue
 - Traditional own resources, proceeds of emissions trading
- Dealing with distortions arising from national taxation of cross-border tax bases by setting the tax at EU level
 - Corporate income tax, traditional own resources, flights duty

¹⁹ The amended EU budget for 2007 was €15 billion at current prices, representing 0.99% of GNI, so that 20% of the actual budget is €3 billion. If the budget had attained the own resources ceiling of 1.24% of GNI, it would amount to €44 billion, so that 50% is €22 billion.

- A continuing need for a residual resource
 - GNI resource, but possibly also ECB monetary income
- By contrast, a resource such as VAT which fares well on more conventional tax criteria as applied to the EU, becomes less appealing, principally because of the risk that it will have to be adjusted to achieve fairness among Member States, thereby reverting to a GNI resource

6.3.3 Corrections and equalisation

Regarding corrections, our conclusion is a conditional one, given that the demand for corrections mainly arises from the uneven geographical incidence of expenditure. The best solution would be for a mix of expenditure that obviates any need for corrections, either because it results in a geographical distribution that is seen by Member States as fair, if not *juste* in the sense of ‘money back’, or if it is recognised that the public good character of expenditure transcends any concerns about where the money is spent. If that cannot be achieved, our second preference is to have some sort of correction mechanism on the revenue side, rather than what we adjudge to be the least attractive option, which is to engage in distortion of spending so as to achieve a satisfactory net balance. It is important to stress that in making these proposals, we start from the proposition that it is net balances that trigger the demand for corrections, so that it is difficult to escape a logic that links the nature of corrections to net balances. In a politically more mature system, we would expect a ‘corrections’ logic to be superseded by an ‘equalisation’ logic in which the focus would not be exclusively on compensating the net contributors. In the absence of a political shift in this direction, our recommendation is that revenue-side corrections should have the following characteristics:

- Open to all Member States fulfilling an objective criterion and administered as a single mechanism, rather than the range of ad hoc corrections currently in place;
- Be linked to the net balance (as for current UK abatement), rather than being a rebate on the gross contribution alone (as for the various reduced take-up rates for the GNI and VAT ORs).
- Triggered only by net balances over an agreed threshold and calculated according to a transparent, common methodology in which GNI per capita, measured in purchasing power parity, is the indicator used;
- Include a firm upper limit for the net contribution of any Member State, but with a progressive rate of abatement between the minimum threshold and the upper limit;
- Have a time limit of the end of the MFF for which it is awarded with no presumption of renewal for the subsequent MFF, but with the caveat that if unbalanced expenditure persists into the subsequent MFF, a re-calibrated correction mechanism will be introduced;

There are, inevitably, also many details that would need to be worked out, but the key is to establish the underlying principles. For example, the minimum threshold could be set at a net contribution of 0.2% of GNI and the maximum could be 0.5%.

If corrections based on net contributions were to be continued, which is not our preferred solution, a more awkward issue around corrections is the order in which decisions are taken. An evident strand in Member State thinking is that countries with similar levels of prosperity should be similarly treated, with equivalent burdens for richer countries and net benefits for poorer ones. An option that could be regarded as taking *juste retour* thinking to its logical conclusion, *while still being a ‘second-best’*, would be to address the problem of excessive net financial positions systematically in the way broadly outlined in the report on the EU budget review prepared by the Slovenian EU budget review taskforce (2007) This proposals, in turn, draws on and enhances Heinemann et al. (2007) and de la Fuente and Domenech (2001) proposals discussed in section 4.4. of this report. According to this proposal Member States would first agree on the division of individual categories of EU budget expenditure into two groups. The first group would include expenditure which cannot or should logically not be allocated (in terms of its benefits) to a specific Member State, such as administrative expenditure, expenditure aimed at external relations or the Solidarity fund. This expenditure would be excluded from calculations of Members States’ net financial positions and the procedure for its adoption would be simplified and single-phased.

The second and considerably larger group of expenditure would include all other expenditure. This expenditure would be included in the calculation of the net financial positions, while the procedure for the adoption of this part of the EU budget would be, as outlined by the Slovenian EU budget review taskforce (2007), carried out in three phases.

- In the first phase, Member States would agree exclusively on the extent of redistribution, in absolute terms, between net receiver and net contributor countries, and as a consequence, on the ‘target net financial positions’ of every Member State.
- The primary objective of the second phase of the process would be to secure agreement from Member States on individual policies to be financed from the budget, which would sum up to the overall size of the EU budget; sources of financing; and the resulting ‘spontaneous net financial positions’ of individual Member States. The latter would no longer be at the forefront of negotiations, since the ‘target net financial positions’ of Member States were decided on in the first phase of the process.
- In the third and final phase of the process, the ‘spontaneous net financial positions’ of individual Member States, calculated in the second phase, would be brought in line with the ‘target net financial positions’, agreed in the first phase, through a fiscal transfer mechanism.

Over time, as indicated in the scenarios detailed above, our recommendation (and expectation) is that corrections should (in contrast, it has to be said, to the experience of the last decade) gradually be eliminated. One way to achieve this would be to have an explicit decision to diminish the pool of money available for such corrections, although to do so would be difficult to reconcile with assurances to Member States about limiting net contributions. In fact the only credible way to do so would be to combine a shift towards progressivity in net contributions for richer Member States (for example by moving the minimum threshold upwards) on the revenue side, with pressures to reduce the imbalances on the expenditure side.

Getting rid of all form of corrections based on some measure of (debatable) ‘net budgetary balances’ does not imply that no correction is warranted. Assuming that reform of the expenditure side of the EU budget will be forthcoming and will yield a structure that is more in line with common objectives, common policies and European public goods, it would probably still be the case that the criterion of fairness across Member States requires corrections of the gross distribution of financial burdens that would result from the proposed changes in the funding instruments. This correction would then have the nature of the fiscal equalisation that exists in many multilevel government systems and it should be operated solely on the revenue side of the budget, disregarding the possible distributional consequences of the agreed pattern of expenditures. Two features of the financial burden sharing would appear to call for equalisation: one is the objective of fairness amongst Member States, that would plead for progressivity in total gross national contributions; the other is the necessity to correct significant imbalances arising from the use of certain funding instruments, though the latter could in theory be mitigated by having more than one own resource. In both cases, we advocate a formula-based equalisation operating on the revenue side of the budget and producing progressivity in gross national contributions.

6.4 Overview of recommendations

While it is difficult to come up with firm recommendations on the revenue side alone without a knowing what is envisaged for the expenditure side or whether an approximation to any of the scenarios put forward in this report becomes a roadmap for the future of the budget, we summarise here a number of recommendations that represent the preferred options of the study team along two dimensions: time scale and likely degree of controversy. We have assumed that ‘Treaty fatigue’ precludes any changes entailing amendments to the Treaty before 2020 and have therefore confined any such recommendations to the long-term. We recommend retaining the GNI resource above all for its residual character in all cases.

In keeping with the decision-making methodology proposed above, these recommendations concentrate on what we regard as the *first order issues*, such as what proportion of revenue should be raised from community own resources as opposed to national contributions, and whether or not to have correction mechanisms (as compensation for imbalance in net contributions) or any kind of revenue-side equalisation. The choice of specific instruments (especially for resources) is then a *second-order issue* for

which a number of solutions are feasible, but where the choice among them will demand on normative factors, as outlined in chapters 2 & 4 and summarised in section 3 of this chapter.

6.4.1 Recommendations for the 2013+ period

- ***Straightforward***
 - Consolidate the VAT resource into the GNI resource – possibly as an immediate change from the review and retain TOR
 - Introduce a generalised correction mechanism or an alternative mechanism for dealing with excessive net financial positions systematically and generally
- ***More controversial***
 - Introduce a new tax or non-tax own resource to boost the share of true community resources to at least 25% of revenue; the source could be chosen between a flights duty or assignment of the proceeds of ETS auctions
 - Introduce some progressivity in the GNI resource as a revenue-side means of equalisation (as opposed to compensation for expenditure imbalances), justified on the grounds of achieving distributive aims

6.4.2 Recommendations for the 2020+ period

- ***Straightforward (with no Treaty change needed)***
 - Continue with the GNI based revenue (and TOR)
 - Introduce some progressivity in the GNI resource as a revenue-side means of achieving distributive aims
 - Set a deadline for phasing out of a generalised correction mechanism or of an alternative mechanism for dealing with excessive net financial positions systematically and generally (pending on appropriate changes of the expenditure side), and instruct the Commission not to take the lead in net contributions calculations
- ***More controversial (with Treaty change needed for some elements)***
 - Introduction of an additional EU tax, or EU taxes, to be decided upon by the European Parliament, but exhibiting properties that are consistent with the *sui generis* EU argumentation.
 - Assign the ECB's monetary income to be the residual resource for the EU budget, possibly by establishing monetary income as a source of a 'rainy-day' fund.
 - Elimination of a general correction mechanism or of an alternative mechanism for dealing with excessive net financial positions systematically and generally (pending on appropriate changes of the expenditure side).
 - Development of an equalisation system.

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