

# Strengths and Weaknesses of the EU Own Resources in Light of the Alternatives

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Presented at the Workshop

**„Reform Options for EU Finances put to test“**

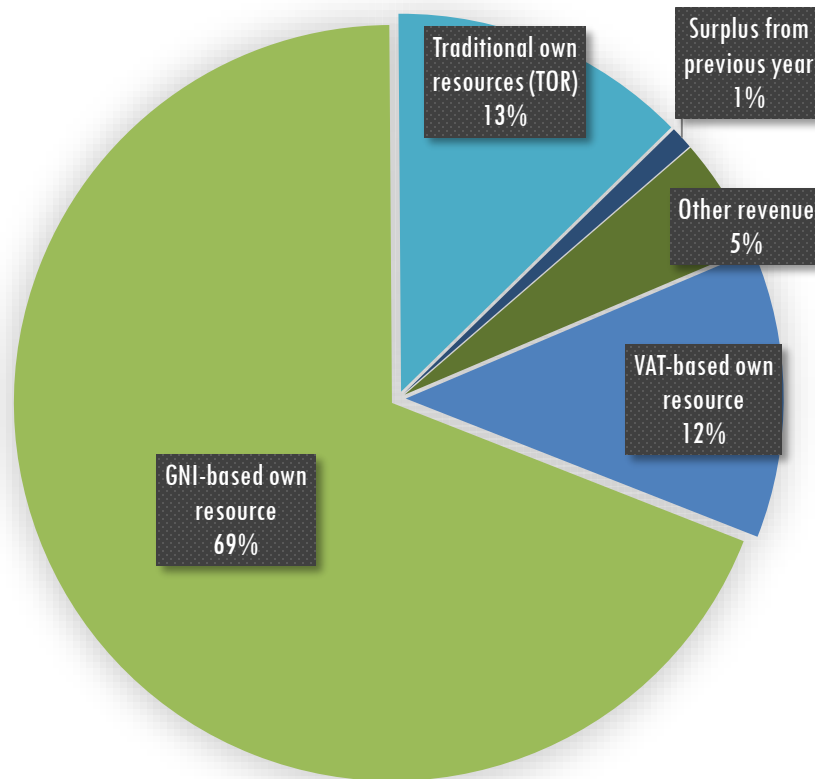
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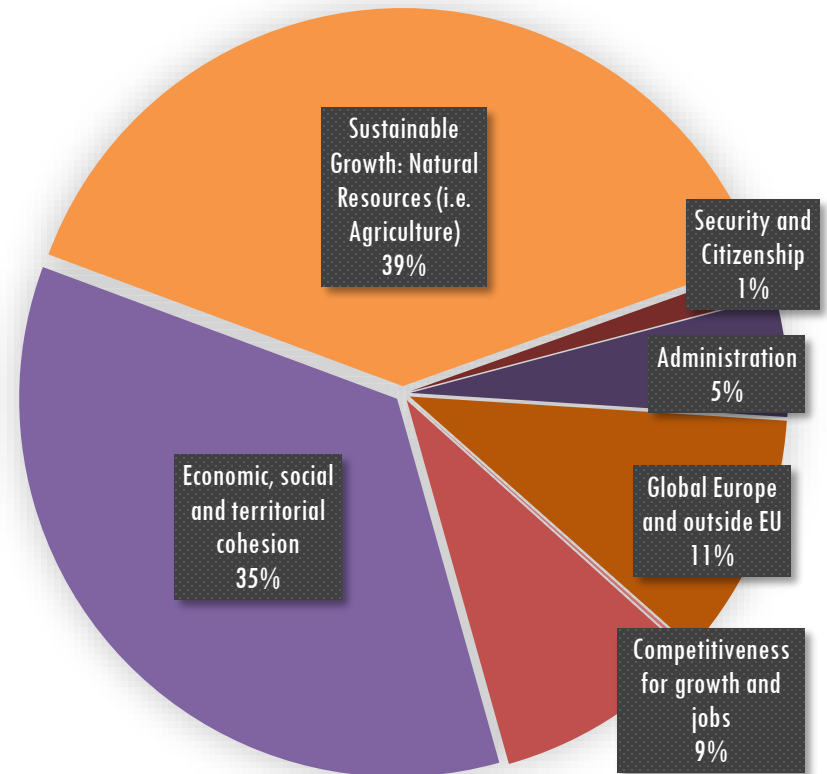
## I. EU BUDGET AT A GLANCE

# Composition of EU Revenues and Spending

EU Revenue (2015): € 146.03 billion



EU Expenditure (2015): € 145.24 billion



Source: Own Calculations; based on COM-Data.

# Core characteristics of the system

**Multiannual Financial Framework (MFF 2014-2020)** with dual spending ceilings for each annual budget.

Majority of spending is fixed; some new **flexibility** instruments have been established.

MFF-approval entails acceptance of **maximum annual revenue ceiling** (1.2 % of GNI).

Actual Own Resources are **financed automatically**, increased and decreased according to expenditure needs.

Therefore, **deficits and debt** are impossible.

OR appear **only in national budgets**, not in view of the European citizens.

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## II. SYSTEMIC BENCHMARKS

# What are strengths and weaknesses?

“Everybody agrees that the current system is too opaque, too complex and, let's be frank, outdated. However, unanimous agreement on the need to improve the current system is one thing, finding a fairer, more transparent and more modern system likely to be agreed by all is another thing.” (Former EU Budget Commissioner Janusz Lewandowski on the occasion of the first HLGOR meeting, 4 April 2014).

Is **unanimity** really the dominant obstacle?

And does **really** everybody agree?

Remember:

The grass is always greener on the other side of the fence.

Suggestive solution:

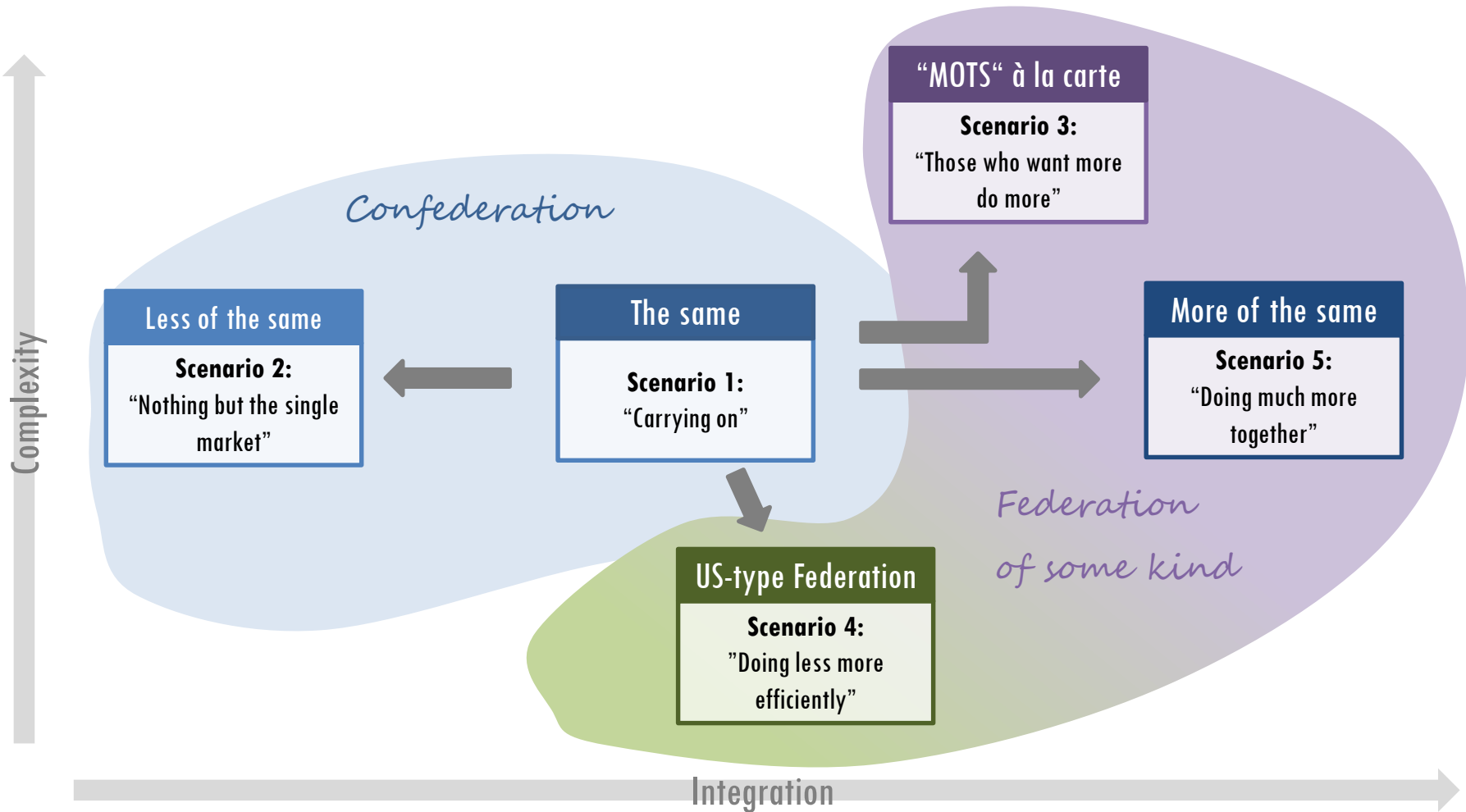
Current OR and its alternatives are evaluated on a equal footing using **identical criteria**.

Indeed? Whether a certain feature of a revenue source is considered a strength or a weakness depends i.a. on the **assigned function** of the instrument.

Own resources were designed to replace Member States' financial contributions, not taxes.

Both have different systemic benchmarks.

# Future of Europe: 5 Scenarios and their financing



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- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Confederation: Non-increasing, mainly delegated powers.</li> <li>• US-type Federation: Clear-cut (and therefore increasing) powers.</li> <li>• Cooperative Federation: Increasing, yet shared powers of the centre.</li> </ul> | <ul style="list-style-type: none"> <li>Revenue: Transfer-type OR.</li> <li>Revenue: Taxes.</li> <li>Revenue: Transfer-Tax-Mix.</li> </ul> |
|---|---|

- The current OR system is dominated by an **intergovernmental fiscal-equalisation logic**.  
(Exception: TOR)
- Most of the options for new resources are dominated by an **interpersonal tax logic**.
- It is not impossible to **combine both systems**. But we should be aware of the differences, especially of the **different functions** of both systems.
- Thus, two **different questions** arise:
  1. What are the **strengths and weaknesses of the transfer-type OR**?  
How can this system be improved?
  2. How strong is the **case for European taxation**?  
Does successful harmonisation necessitate an European revenue authority?
- (This presentation concentrates primarily on the first question. )



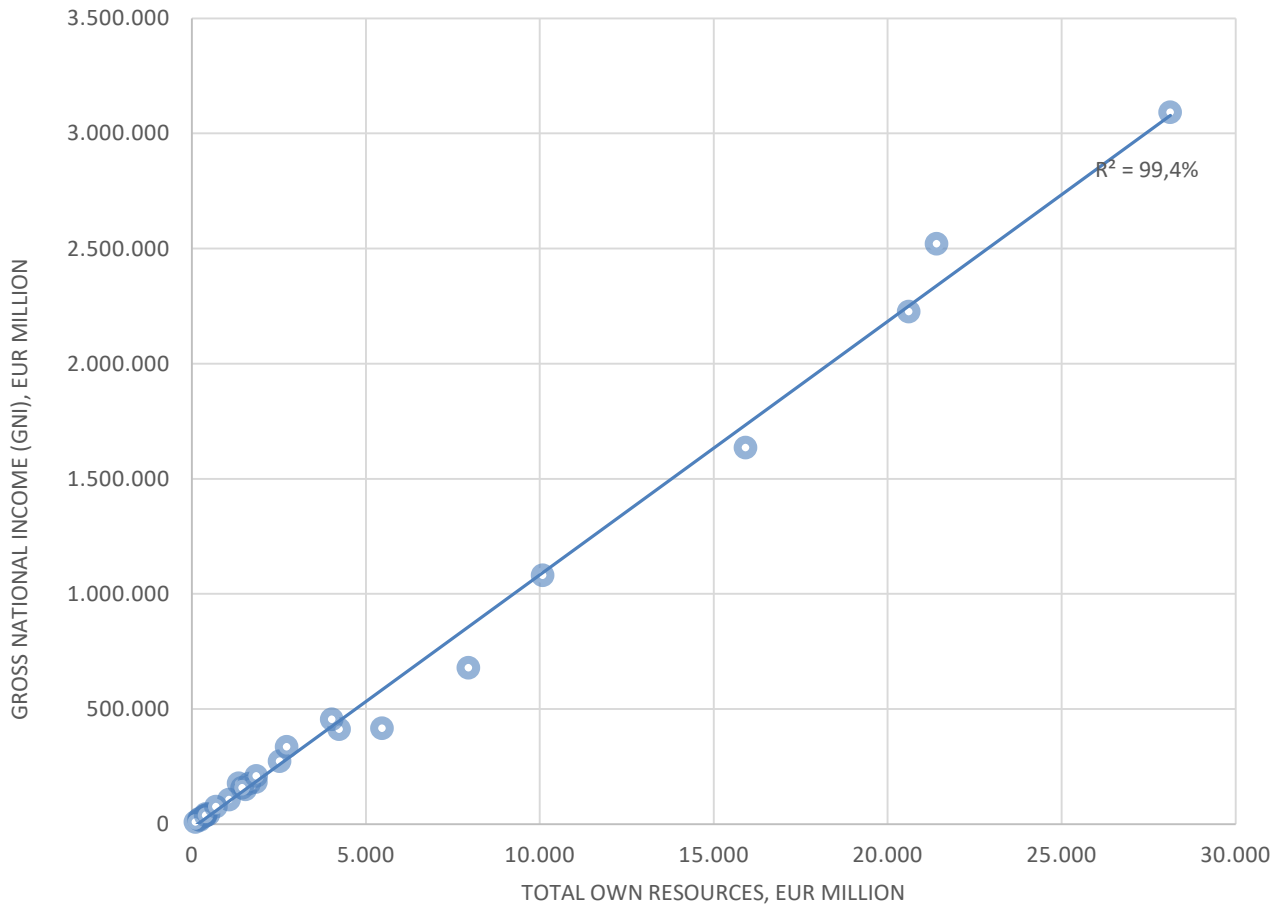
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### III. STRENGTHS AND WEAKNESSES

# Strengths of the current OR (within the MFF system)

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- 1 Budgets are always balanced; EU deficits and surpluses are impossible.
  - 2 Budget discipline is ensured by the MFF.
  - 3 Revenues for the Union are predictable and reliable (in the mid-term).
  - 4 Easy and timely adoption of annual budget.
  - 5 MS' contributions are quite fair and proportional to GNI (see next slide).
  - 6 Majority of the OR , i.e. GNI-OR and TOR, are simple and transparent.
  - 7 Financing via OR is a (necessarily small) stabiliser in economic crises.

# Fairness: Correlation of Total OR and GNI (2015)



Source: Own Calculations; based on COM-Data.

- Regularly, a very close correlation.
- Fun fact: *Total* OR and GNI are correlated *even closer* than GNI-based OR and GNI. ( $R^2 = 99,4\%$ )
- Surprising (but only true in 2015).
- Financing of EU: Almost immaculate **proportional financing rate**
- Based on a straightforward (& simple) **ability-to-pay principle** applied to MS

# Weaknesses of current OR

Problem / Criticism	Solve within system?	Tax a potential remedy?
Statistical VAT-based OR complex and non-transparent	Reform VAT-OR; or increase GNI-OR	Possible. Transparency depends on design
Rebates (and rebates from financing the rebates) are unfair, complex and non-transparent	Abolish (use BREXIT)	Rebates also plague tax harmonisation
Delayed payments, 'reste à liquider'	Making available-regulation etc.	Reliability of tax revenue?
Presentation of OR in national budgets heterogeneous and misleading	Harmonise presentation	Tax revenues disappear from national budgets
"Juste retour"-thinking on the national level	Not conceivable	Tax decreases this transparency
Limited margin of manoeuvre for new priorities	Feature of MFF	Feature of MFF
Missing accountability-link to voters	Not feasible	Feasible (but probable?)
EU added value: Decrease harmful tax competition	Not feasible	Harmonisation? . . .
EU added value: Use taxation for regulation	Not feasible	. . . or centralisation?

## Current OR-system: If it's not broken don't fix it

- Within the realm of current EU, current system is “okay”.
- Operational improvements beneficial — and feasible.
- Day-to-day processes may be sometimes frustrating — as with all revenue systems.

## How strong is the case for European taxation today?

- Does successful harmonisation necessitate a European revenue authority?
- If yes, the revenue should be used to unburden the standard OR.

## Growth and deepening of the Union

- US-type federation makes a strong case for Euro taxes.
- Deeper cooperative federation will need a transfer-tax-mix beyond the MFF.

**Thank you**

**Continuing the dialogue:**

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Note: This a standalone presentation. It is original work, not based on a background paper or report. Naturally, the arguments benefitted strongly from the sources quoted.

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