

# EU Regional Policies and European Fiscal Equalisation

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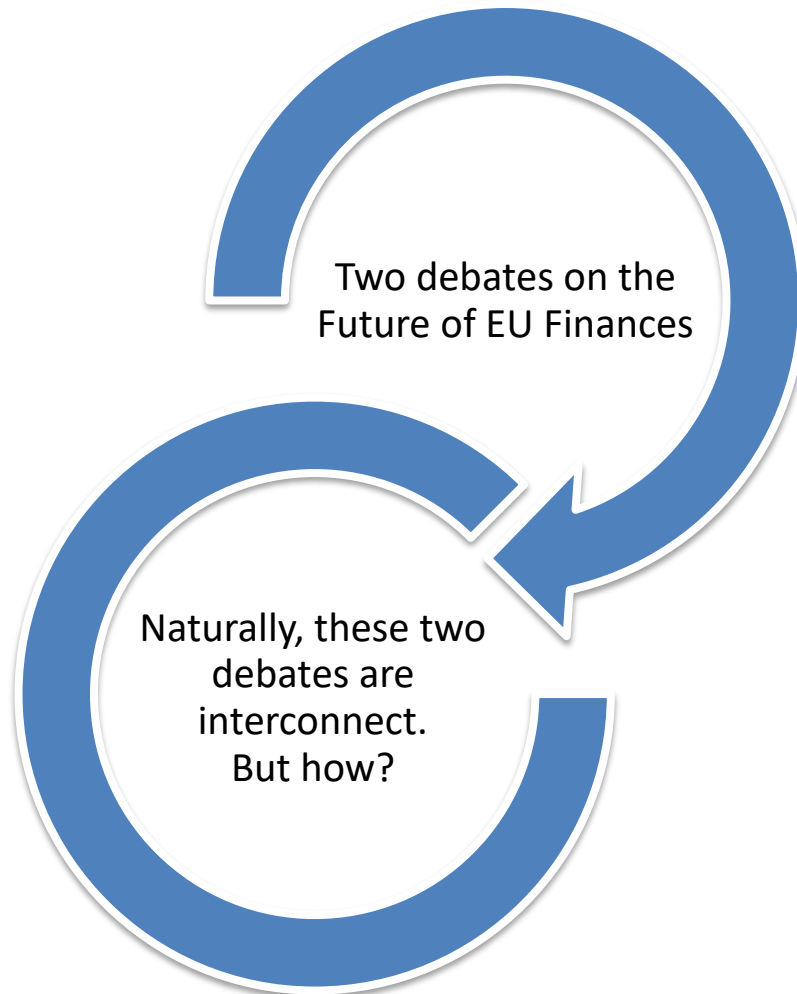
Presented at the

1<sup>st</sup> Speyer Conference on European Finances

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EU Regional Policies and European Fiscal Equalisation

# I. FISCAL EQUALISATION IN EUROPE?



- Do the Own Resources need reform in face of dominant “Juste retour”-thinking?
- Fiscal Union: Does it necessitate more European fiscal equalisation – the “Europäischen Länderfinanzausgleich”?

- **Economic and fiscal crisis** lead – inter alia – to calls for a **EU Fiscal Union**.
- **Dominant question here:**
  - Can a **fiscal equalisation** mechanism, e.g. a **common unemployment insurance**, help to **stabilise** in the face of **macroeconomic shocks**?
- **Answers:**
  1. Yes. To a some degree and when faced with asymmetric shocks.<sup>1</sup>
  2. But: A common EU unemployment scheme might weaken incentives and increase moral-hazard among Member States.<sup>2</sup>
  3. Already, the Own Resources-system stabilises in case of asymmetric macro-shocks.<sup>3</sup>
- **My topic** today:
  - Stabilisation? Okay, we see the point.
  - But mainly, **fiscal equalisation is about redistribution.**

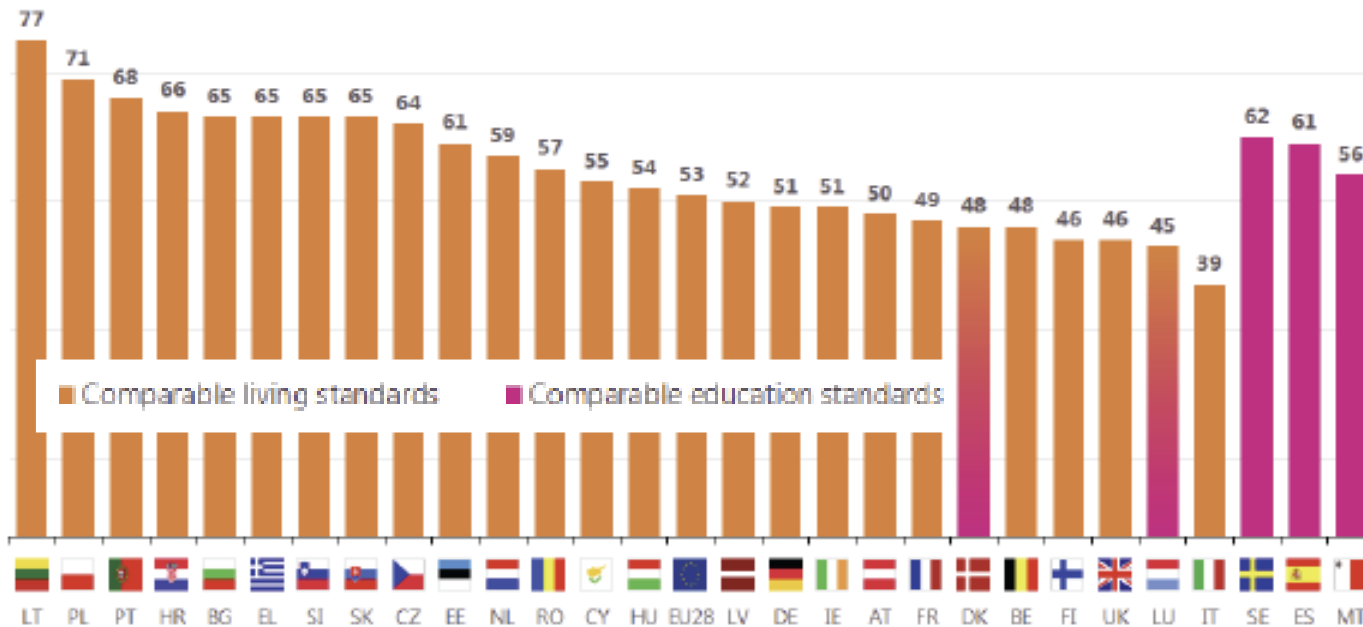
1. See e.g.: *Bargain, O.* et al. (2013), Fiscal union in Europe? Redistributive and stabilizing effects of a European tax-benefit system and fiscal equalization mechanism, *Economic Policy* 28 (75): 375-422.

2. See: *Wissenschaftlicher Beirat beim Bundesministerium der Finanzen* (2016), Zwischen Fiskalunion und fiskalpolitischer Eigenverantwortung: Zum Vorschlag einer europäischen Arbeitslosenversicherung, Berlin.

3. *Büttner, T.* (2016), EU Funding System and Smoothing of Member States' Revenues. In: T. Büttner and M. Thöne (eds.), *The Future of EU-Finances*, Beiträge zur Finanzwissenschaft 34, ISBN 978-3-16-154656-3, Mohr Siebeck, Tübingen.

# Redistribution within EU is not unpopular

**QB9** Which two of the following would you consider to be most helpful if anything, for the future of Europe?  
 (MAX. 2 ANSWERS)  
 (% - THE MOST MENTIONED ANSWER BY COUNTRY)



Source: COM (2016): Special Eurobarometer 451, „Future of Europe“.

WIRTSCHAFT

Deutsche für europäischen Finanzausgleich

11.5.2017

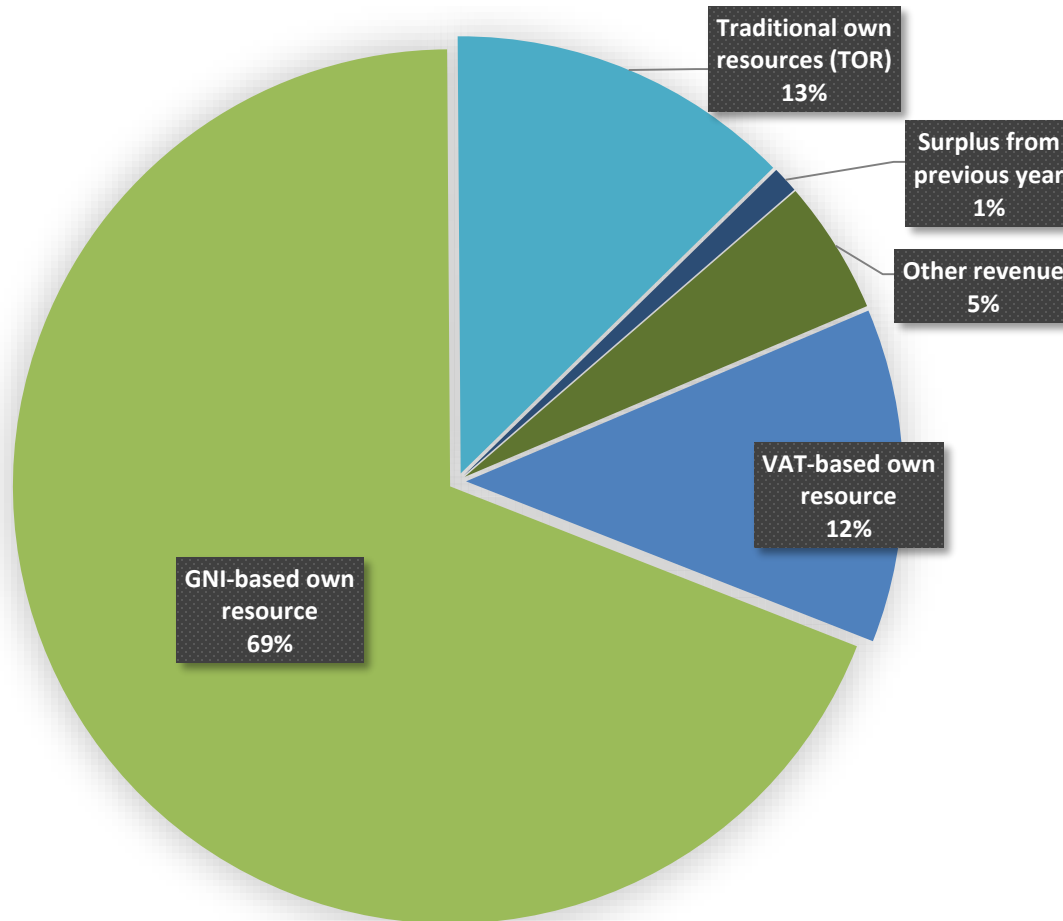
WELT N24

- **How much ,classic‘ fiscal equalisation is already hidden in the current structure of revenues and spending of the EU?**
- I focus on **gross national income (GNI)** per inhabitant, the most likely variable on which a fiscal equalisation system in the EU would be based – at least partly, maybe even fully.
- *The following calculations and simple regressions only serve to formulate hypotheses. I do not claim to present anything other than an empirical first shot.*

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### **II. REVENUE SIDE**

# Composition of EU Revenue (2015)



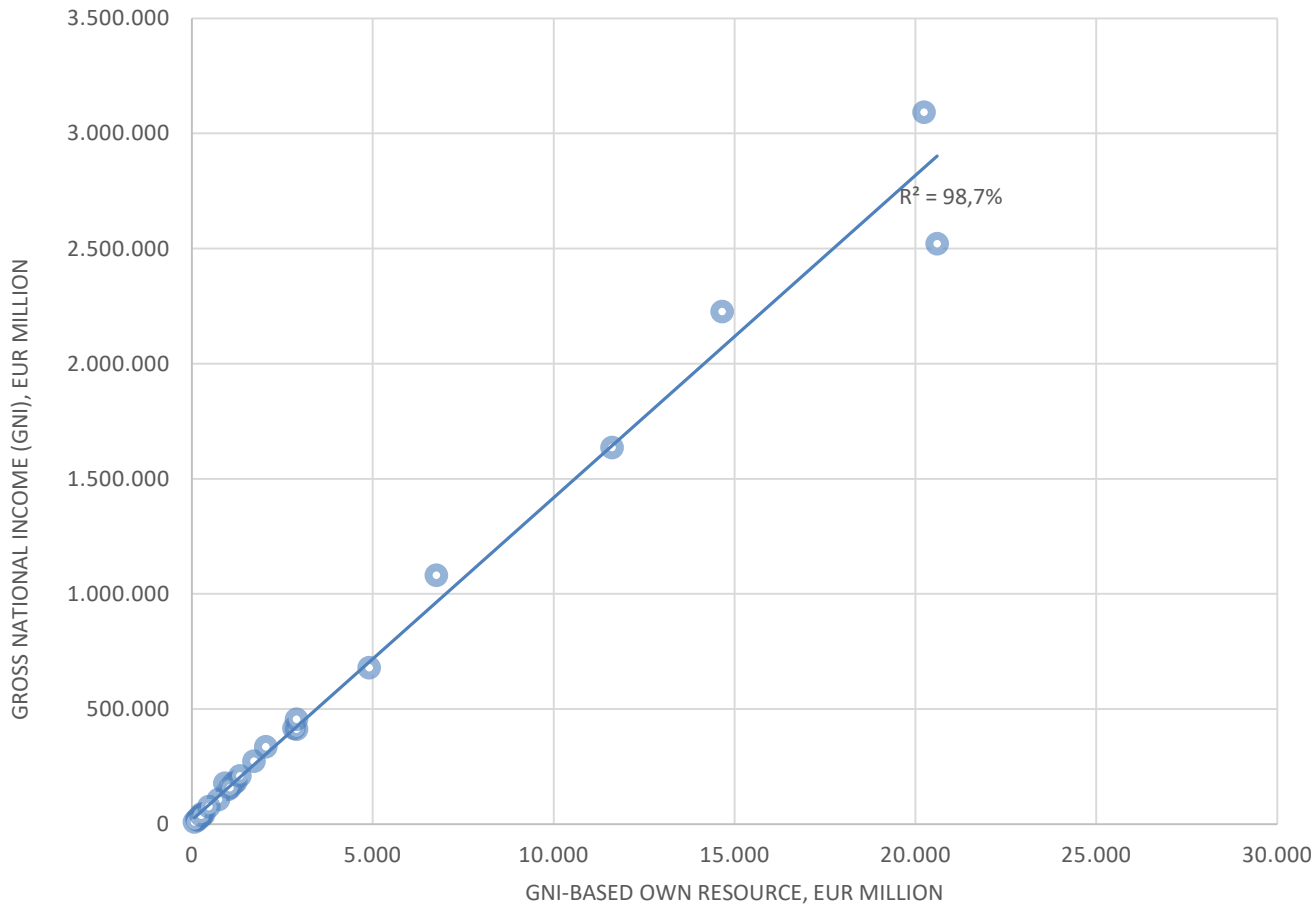
- VAT-based own resource 18.087
- Traditional own resources (TOR) 18.730
- GNI-based own resource 100.967
- UK correction -443
- Surplus previous year 1.434
- Other revenue 7.258
- **TOTAL REVENUE 146.027**

(EUR million)

Source: Own Calculations; based on COM-Data.



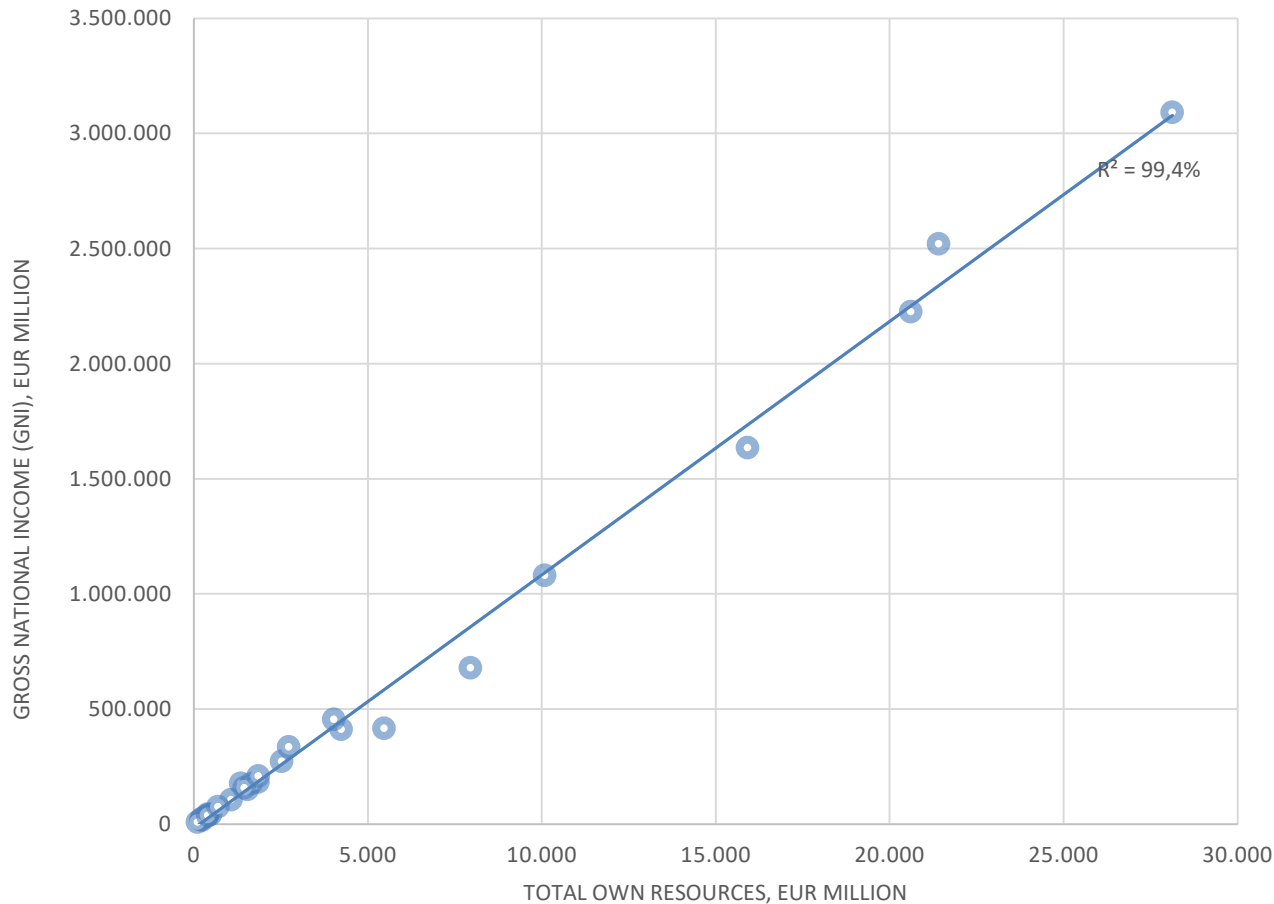
# Correlation: GNI-based OR and GNI (2015)



- GNI-based OR and GNI are closely correlated.
- $R^2 = 98,7\%$  (2015)
- Unsurprisingly.

Source: Own Calculations; based on COM-Data.

# Correlation: Total OR and GNI (2015)



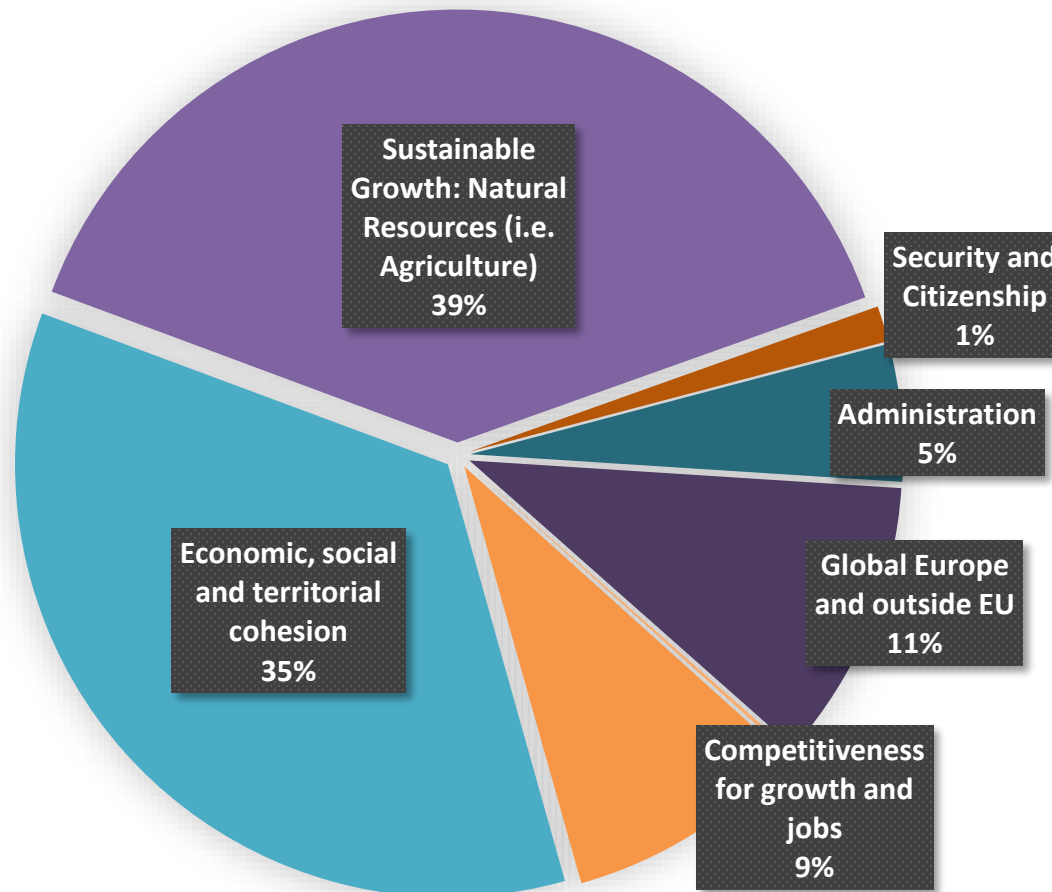
Source: Own Calculations; based on COM-Data.

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

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### **III. EXPENDITURE SIDE**

# Composition of EU Expenditures (2015)

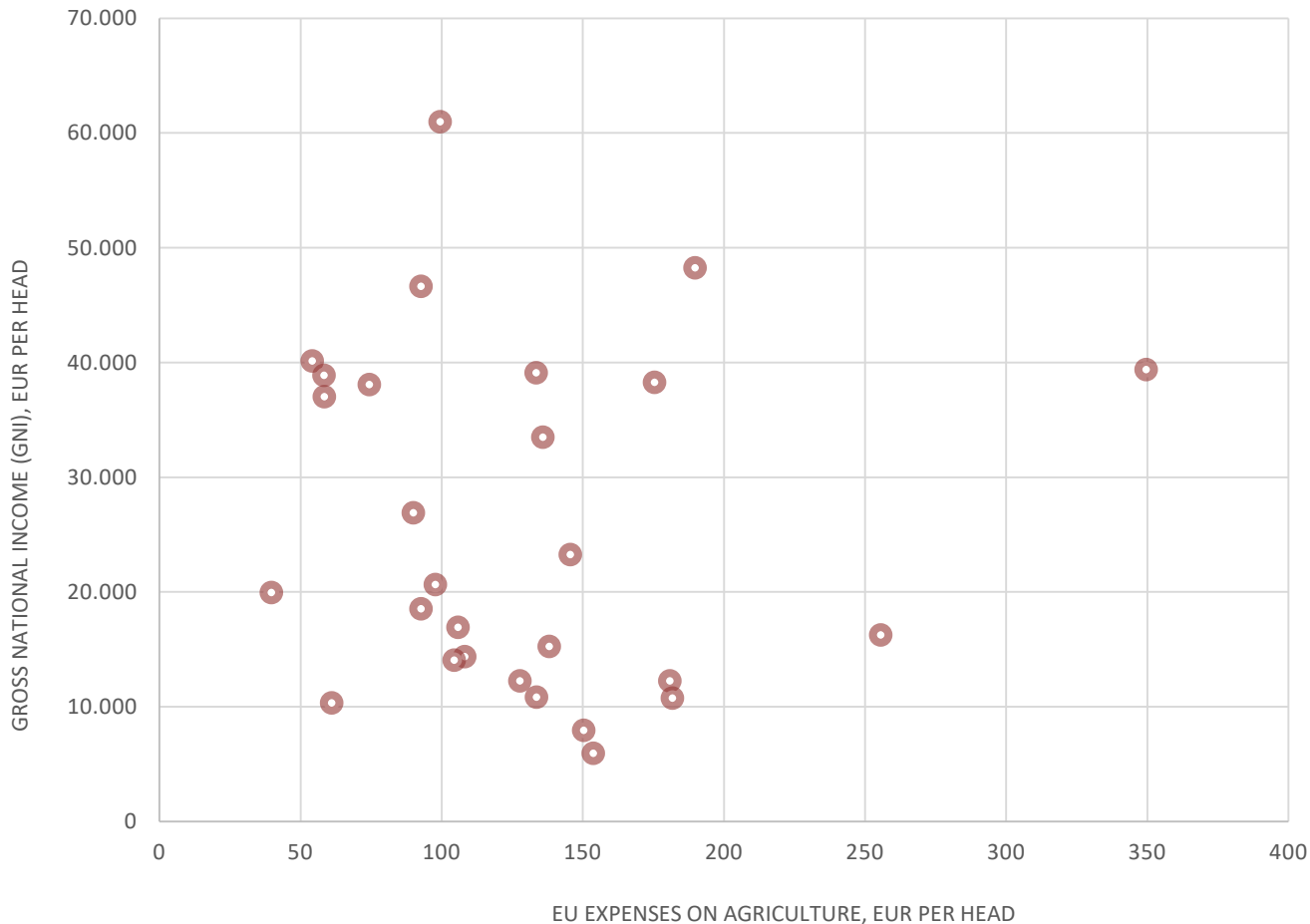


- Competitiveness for growth and jobs 13.033
- Economic, social and territorial cohesion 50.873
- Sustainable Growth: Natural Resources (i.e. Agriculture) 56.486
- Security and Citizenship 1.935
- Administration 7.452
- Global Europe and outside EU 15.273
- Other 192,2
- **Total Expenditure 145.243**

(EUR million)

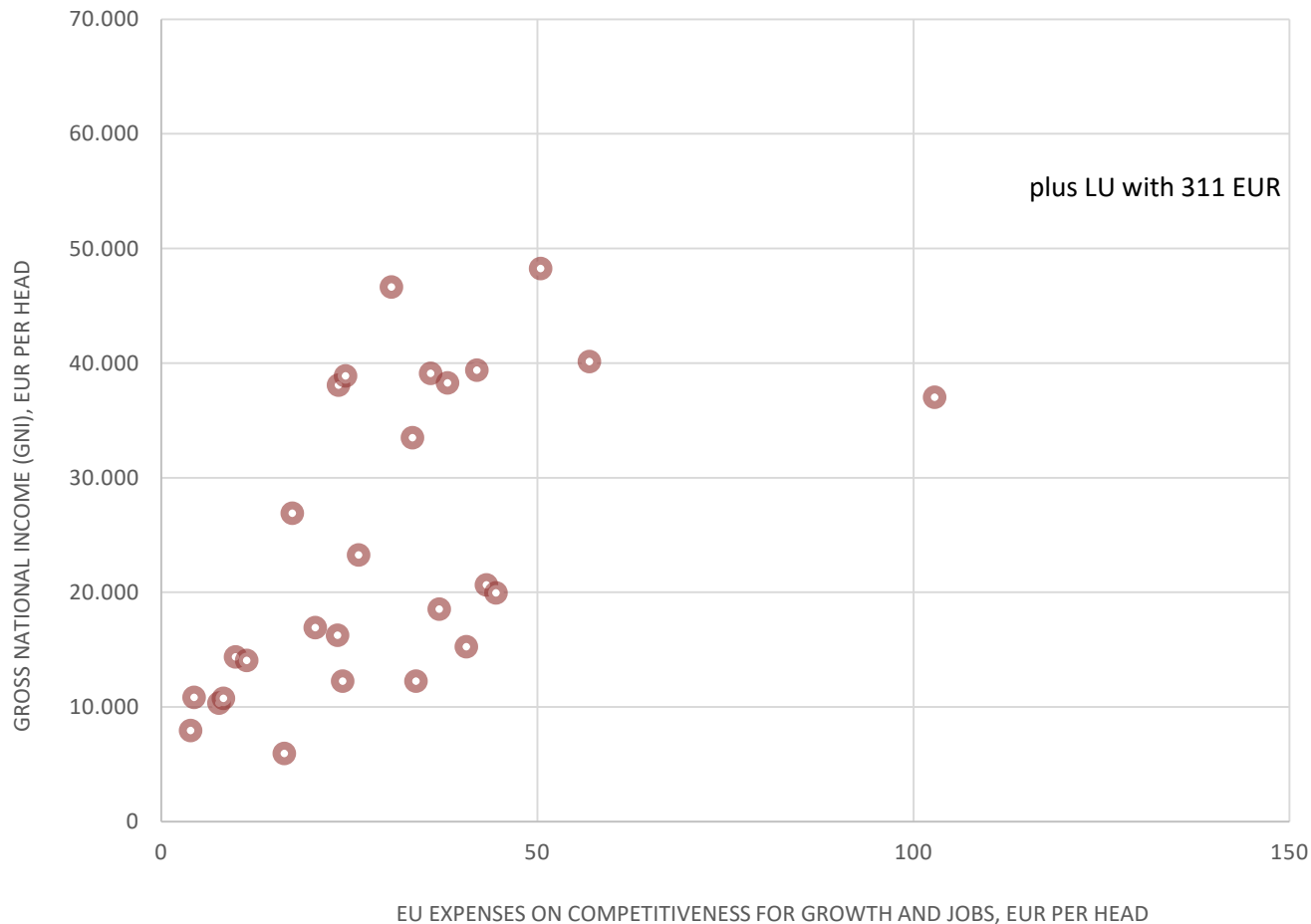
Source: Own Calculations; based on COM-Data.

# Agriculture spending and GNI (both per head; 2015)



- 39% of the budget
- No interconnection with GNI per head
- Agriculture spending does not serve an obvious fiscal equalisation-purpose.

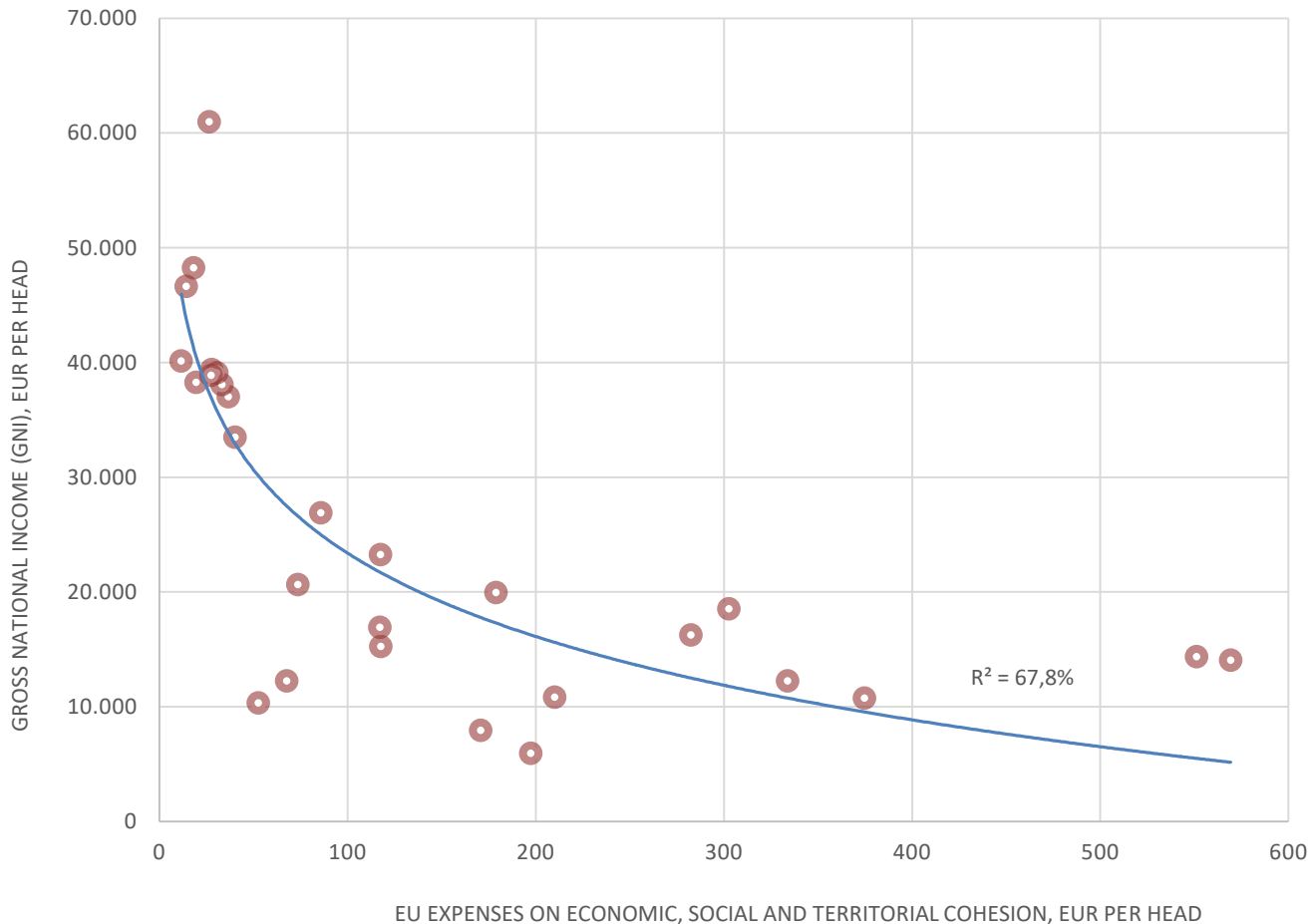
# “Competitiveness for growth & jobs” and GNI (both per head; 2015)



- Structural, but „non-regional spending“ (9% of 2015 budget)
- Little to no interconnection with GNI
- Here, one or several other “non-equalisation”-rationales reign.
- The same is true for the remaining EU expenses.

Source: Own Calculations; based on COM-Data.

# Regional spending and GNI (both per head; 2015)



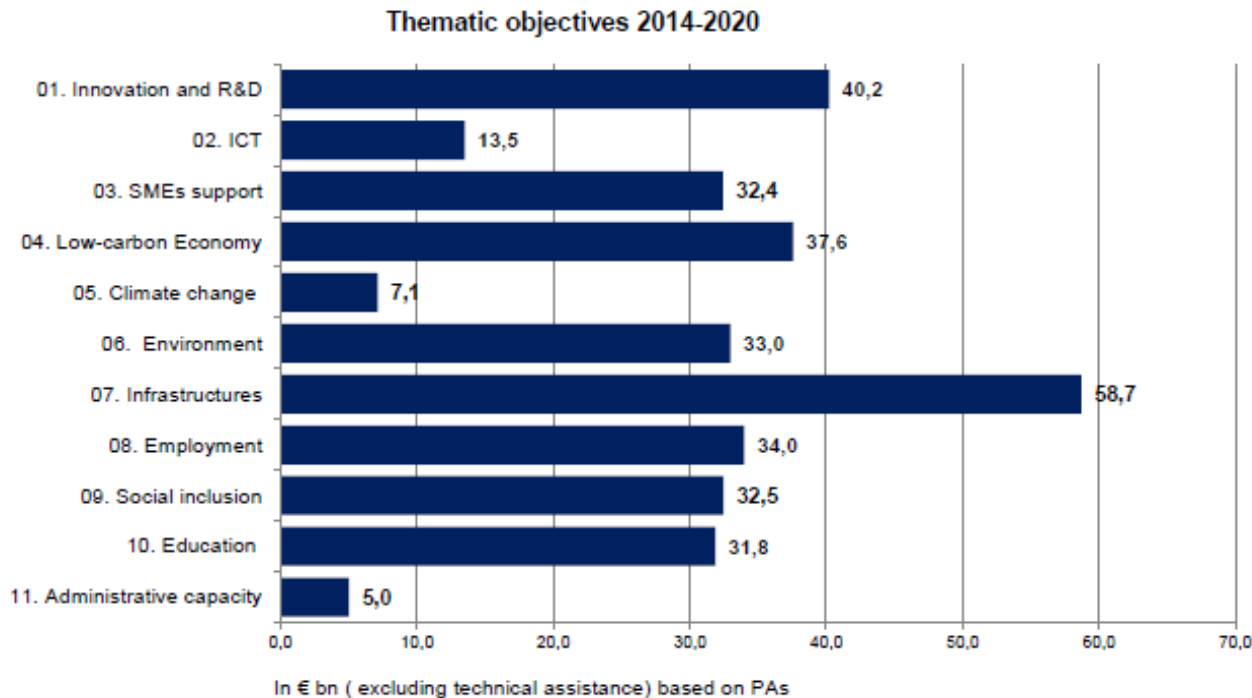
Source: Own Calculations; based on COM-Data.

- 35% of the budget
- Regional policy spending per head follows a downward slop with increasing GNI per head. (Logarithmic specification.)
- $R^2 = 67,8\%$  may seem moderate. Yet, in the “business” of calculating fiscal equalisation systems, this correlation is actually quite good.
- Combined with revenue, **this slope produces a clear redistribution rate of an (implicit) fiscal equalisation system.**

# Areas of Cohesion spending in 2014-2020



*In the programming period 2014-20, Cohesion Policy will invest in...*



- Cohesion spending **spatially focused** on less developed EU-regions
- **But little thematic focus;** cohesion funding supports virtually all tasks of potential relevance for regional development.
- **The lack of sufficient funds** in the regions is obviously a stronger rationale for cohesion spending than any unique “European value” rationales (externalities, public goods, other added value).
- Additional **evidence for our “fiscal equalisation hypothesis”**

Source: “Prospects for the review of the EU 2020 Strategy, the Juncker Plan and Cohesion Policy after 2020”; Jurmala, June 3 2015; Philippe Monfort, DG for Regional and Urban Policy, European Commission. <https://www.espon.eu/>



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## **IV. FISCAL EQUALISATION?**

- With GNI-based revenues and mainly GNI per head-based regional spending, a fairly strong, yet **implicit fiscal equalisation mechanism** (> one third of EU budget) **is already in force.** (*Actually, we knew that.*)
- **Two consequences** for the current debate:
  1. With this clear regional redistribution from rich to poor, clearly **there is no room for “juste retour”-thinking.**
  2. **Fiscal union:** Don't ask whether we need an EU fiscal equalisation. **Ask whether the existing equalisation conforms with our needs.**
- **A possible answer / a “new narrative”:**
  - With the calls for more “European added value” in expenditures and with the - at best - mixed evidence for “additionality” of EU regional spending, an **explicit fiscal equalisation** with more applied subsidiarity might be discussed as a (partial/full?) **replacement for the current implicit practise.**

# Thank you

Continuing the dialogue:  
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