

# THE FUTURE OF THE EUROPEAN BUDGET

## WHAT DOES THE COMMISSION'S WHITE PAPER MEAN FOR EU FINANCES?

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### SUMMARY

In its “White Paper on the Future of Europe” the European Commission outlines different scenarios for the future of European integration and imagines what the EU could look like by 2025. As a contribution to the ongoing debate, this paper outlines what the different scenarios might mean for the EU budget.

- Pursuing the current reform path while adapting the budget only at the margins (scenario 1) is unlikely to work. Planned spending on new policy priorities combined with falling revenue after Brexit means that EU27 would have to accept higher contributions or scale down their ambitions.
- A budget designed to support only the single market (scenario 2) would not necessarily be smaller than today. It would not only need to preserve the four freedoms, but also provide funding for research, infrastructure, and convergence.
- A “differentiated” EU that sees groups of like-minded countries integrate further (scenario 3) would have to rely more on funds outside the EU budget, especially in order to cooperate on joint military operations and to finance steps towards a more resilient EMU.
- An EU that expands integration in some fields and hands back other competences to the member states (scenario 4) would need to spend more on migration and defence while cutting expenditure on agriculture and cohesion spending in richer countries.
- An EU that advances integration across all policy areas (scenario 5) would not only require a considerably larger budget to accommodate the needs of the euro area. It would also have to overhaul its budgetary processes, its governance and its financing system.

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## INTRODUCTION

Earlier this year, the European Commission presented its “White Paper on the Future of Europe”.<sup>1</sup> In five scenarios, the document describes what the EU could look like by 2025. Does Europe need to change its priorities? Should smaller groups of member states go ahead on their own?

As a contribution to the ongoing debate, this paper outlines what the different scenarios might mean for the EU budget. We outline the promises and pitfalls of the different paths and close with a few general recommendations.

### 1. Scenario 1: Do more, spend less?

Impact on policies					
Single market & trade	Economic & Monetary Union	Schengen, migration & security	Foreign policy & defence	EU budget	Capacity to deliver
Single market is strengthened, including in the energy and digital sectors; the EU27 pursues progressive trade agreements	Incremental progress on improving the functioning of the euro area	Cooperation in the management of external borders stepped up gradually; progress towards a common asylum system; improved coordination on security matters	Progress is made on speaking with one voice on foreign affairs; closer defence cooperation	Partly modernised to reflect the reform agenda agreed at 27	Positive agenda for action yields concrete results; decision-making remains complex to grasp; capacity to deliver does not always match expectations

The impact of scenario 1 on selected policy areas. Source: European Commission. *White Paper on the Future of Europe: reflections and scenarios for the EU27 by 2025*. March 2017.

The White Paper’s first scenario assumes that the EU27 carries on as today and pursues incremental reforms. In the budgetary realm, it mentions a partial modernisation. We assume that member states would try to keep the EU budget at about one per cent of EU Gross National Income (GNI)—as they have done in the past—and implement changes that are possible within that constraint.

#### 1.1. A small revenue reform

EU member states are notoriously averse to reforming the EU’s revenue system, but some obvious flaws can be fixed without major reforms. For instance, Brexit spells the end of the United Kingdom’s budgetary rebate and a few related exemptions. This is a good thing in itself, and it might also convince the EU27 to abolish the most inefficient source of EU financing: the so-called “VAT-based own resource”, a complex and outdated construct that has little to do with a real European value added tax. One of the main reasons for its continued use is its role in calculating the British rebate.<sup>2</sup> That would no longer be an issue after the United Kingdom’s departure from the EU. Since a comprehensive overhaul of the EU financing system is not considered a priority, the lost revenue would be replaced by higher national contributions based on member states’ GNI, which would then make up about 80% of the EU’s income. While this is likely to cement member states’ focus on net returns, at least it makes the system easier to understand.

1. European Commission, *White Paper on the Future of Europe: reflections and scenarios for the EU27 by 2025*, March 2017

2. Council Decision 2014/335/EC, *Euratom of 26 May 2014 on the system of own resources of the European Union*

## 1.2. More projects, less money

The outlook is much more troubling on the spending side. An EU that “carries on” can be assumed to follow the plans laid out in the Bratislava and Rome roadmaps. But these plans, or at least the European Commission’s interpretation of them, call for more EU responsibilities and they do not come free of charge.<sup>3</sup> Some examples: the White Paper assumes that the EU will play a significant role in boosting growth and employment, “stepping up investment in digital, transport and energy infrastructure”. Additionally, it mentions “stepping up cooperation on [the] management of external borders”, which requires more money for agencies like Frontex and for instruments like the Internal Security Fund. It also refers to increased “efforts in defence cooperation”. Even if this only means implementing the proposed European Defence Fund, the cost will be €1.5 billion per year after 2020.<sup>4</sup>

To comply with the current budgetary ceiling, all this would need to be funded by reducing spending on other policies. But without major reforms, at least two thirds of the budget will still be reserved for the Common Agricultural Policy (CAP) as well as the Structural and Cohesion Funds. More money for new policies would consequently mean less money for vital items such as research, infrastructure and foreign policy.

The objective of keeping spending at one percent of EU GNI is rendered even more unrealistic by the financial consequences of Brexit. The departure of the United Kingdom shrinks the EU’s GNI by 17%. On top of the budget shifts mentioned above, cuts amounting to around €23 billion per year would be necessary to maintain the budget size unchanged in relative terms.<sup>5</sup>

At this point, it becomes clear that a marginally reformed budget is inconsistent with an evolving EU. If the one-percent threshold is really to be maintained, a complete overhaul of spending priorities becomes necessary and spending on the Common Agricultural Policy or the Structural and Cohesion Funds would need to be drastically cut, perhaps by as much as 50%. It’s hard to see why net recipient countries would agree to this. The EU27 will be forced to choose: they will either have to accept a larger budget (in relative terms) or scale down their ambitions radically. A budget that just carries on as before will not work, even for a very moderate reform agenda.

## 2. Scenario 2: A budget for the single market

 **Impact on policies**

Single market & trade	Economic & Monetary Union	Schengen, migration & security	Foreign policy & defence	EU budget	Capacity to deliver
Single market for goods and capital strengthened; standards continue to differ; free movement of people and services not fully guaranteed	Cooperation in the euro area is limited	No single migration or asylum policy; further coordination on security dealt with bilaterally; internal border controls are more systematic	Some foreign policy issues are increasingly dealt with bilaterally; defence cooperation remains as it is today	Refocused to finance essential functions needed for the single market	Decision-making may be easier to understand but capacity to act collectively is limited; issues of common concern often need to be solved bilaterally

The impact of scenario 2 on selected policy areas. Source: European Commission. *White Paper on the Future of Europe: reflections and scenarios for the EU27 by 2025*, March 2017.

3. European Council, *The Bratislava Declaration*, Bratislava, 16 September 2016. European Council, *The Rome Declaration*, Rome, 25 March 2017

4. European Commission, *A European Defence Fund: €5.5 billion per year to boost Europe’s defence capabilities*, Press release, Brussels, 7 June 2017

5. Jörg Haas and Eulalia Rubio, *Brexit and the EU budget: threat or opportunity?*, Policy Paper No.183, Jacques Delors Institute, January 2017

The second scenario envisages an EU budget “refocused to finance essential functions needed for the single market”. What would such a budget look like?

The key lies in defining what is meant by “essential functions”. We could interpret them as those functions needed to guarantee the four freedoms of movement. In that case, the common budget could be very small and narrowly focused on expenditure directly linked to improving the mobility of goods and workers in the single market, such as trans-national networks or mobility programmes for students and workers. This vision chimes well with the general description of the scenario (which is presented as a step back in the integration process). However, it clashes with the dominant view on how the EU budget should support the process of market integration.

## 2.1. Growth, convergence, and restructuring

To start with, cohesion policy is a major item of “single market” expenditure. The two big budgetary deals of the 1980s and early 1990s (the Delors packages 1 and 2) were indeed compromises designed to significantly expand EU cohesion policy in response to the Delors single market programme and the creation of the Economic and Monetary Union (EMU). Both were based on the same reasoning: actions to deepen market integration should be accompanied by measures to correct geographical imbalances arising from that integration.

In addition, since the late 1990s there has been a general consensus that removing barriers is not sufficient to bring about a properly functioning single market: some common action is needed to invigorate that market, that is, to boost aggregate growth and improve Europe’s long-term competitiveness. This has translated into a progressive increase in the so-called EU “competitiveness-based spending” (e.g. on research and innovation, education and trans-European infrastructure), which increased by 37.2% in the last Multiannual Financial Framework even if still represents a minor part (13%) of the EU budget.

The EU budget proposed by the 2003 Sapir Report is probably the best illustration of what an EU budget focused on the single market would look like in this more expanded and modern interpretation.<sup>6</sup> The Report proposes a drastic re-allocation of EU spending to economic issues, the elimination of the Common Agricultural Policy (CAP) and the re-organisation of common spending into three funds:

1. a “growth fund” financing R&D, education and training and infrastructure, worth 0.45% of EU GDP,
2. a “convergence fund” to help poorer countries with the catch-up process, worth 0.35% of EU GDP, and
3. a “restructuring” fund to provide assistance for displaced workers from manufacturing and agriculture, worth 0.2% of EU GDP.

Two caveats must be raised with regard to this proposal. First, the Sapir Report was written in 2003. At that time it was assumed that the bulk of EU spending would go to socio-economic goals and that all other non-economic spending (such as expenditure related to security and border protection, immigration and asylum policy or EU external action) would require minimal amounts of EU funding. However, as noted in the previous section, these are precisely the areas where we currently see pressure for more common spending.

Second, the Report proposed more than just new spending priorities. It also suggested changes in the modes of delivery, such as allocating more spending on a competitive basis and basing more ex-post evaluation of expenditure on criteria specified ex-ante. The overall philosophy was to introduce a more incentive-based approach in the EU budget, one that treats member states as partners rather than as passive beneficiaries. We will come back to these issues in scenario four.

<sup>6</sup>. André Sapir et al, *An agenda for a growing Europe: making the EU economic system deliver*, Report of an Independent High-Level Study Group established on the initiative of the President of the European Commission, July 2003.

### 3. Scenario 3: Differentiated integration

 **Impact on policies**

Single market & trade	Economic & Monetary Union	Schengen, migration & security	Foreign policy & defence	EU budget	Capacity to deliver
As in "Carrying on", single market is strengthened and the EU27 pursues progressive trade agreements	As in "Carrying on" except for a group of countries who deepen cooperation in areas such as taxation and social standards	As in "Carrying on" except for a group of countries who deepen cooperation on security and justice matters	As in "Carrying on" except for a group of countries who deepen cooperation on defence, focusing on military coordination and joint equipment	As in "Carrying on"; additional budgets are made available by some Member States for the areas where they decide to do more	As in "Carrying on", a positive agenda for action at 27 yields results; some groups achieve more together in certain domains; decision-making becomes more complex

The impact of scenario 3 on selected policy areas. Source: European Commission. *White Paper on the Future of Europe: reflections and scenarios for the EU27 by 2025*. March 2017.

In scenario 3, "the EU27 allows a group of member states to do more together in specific areas". What would differentiated integration mean for the EU budget?

The existence of budgets or funds outside the EU budget is not a novelty. There are various financing mechanisms out of the common budget, particularly to support EU external actions<sup>7</sup> and provide financial assistance to distressed member states.<sup>8</sup> The existence of these other budgets is usually seen as a necessary evil: they allow for more tailored and flexible use of funding and allow smaller groups of countries to finance joint actions. But they also entail more complexity and fragmentation in the EU budgetary landscape and pose particular challenges to democratic control and budgetary oversight. For this reason, the dominant view in Brussels is that the creation of new elements of budgetary differentiation should be strictly limited.<sup>9</sup>

#### 3.1. Financing projects outside the budget can be necessary...

In two areas, there is clearly a need for pooling resources and a rationale for doing so outside the EU budget. The euro area needs instruments to buffer economic shocks and coordinate the economic policies of its member states more effectively. In defence policy, there are increasing calls to strengthen cooperation, but funding via the EU budget is limited by legal issues.

From a legal point of view, a fiscal capacity such as a stabilisation mechanism or an investment budget for the euro area could be integrated into the EU budget.<sup>10</sup> However, there are practical and political obstacles. A stabilisation mechanism would require a large increase in the overall budget ceiling.<sup>11</sup> Furthermore, it would be difficult to reconcile with the obligation to maintain the EU's annual budget in balance because it would need to accumulate money in good times and disburse it during economic downturns.<sup>12</sup> Politically, a fiscal capacity within the EU

7. Blomeyer, Roland, Paulo, Sebastian and Perreau, Elsa, *The budgetary tools for financing the EU external policy*, Study for the European Parliament, 18 January 2017.

8. Gros, Daniel, Alcidí, Cinzia, Nunez Ferrer, Jorge and Rinaldi, David, *The instruments providing financial support to EU member states, in-depth analysis for the European Parliament*, 12 January 2017.

9. As recommended in the Report of the High Level Group on Own Resources. See Mario Monti et al., *Future financing of the EU. Final report and recommendations of the High Level Group on Own Resources*, December 2016.

10. Rene Repasi, *Legal options for an additional EMU fiscal capacity*, study for the European Parliament, 2013 ; Anna Iara, *Revenue for EMU: A contribution to the debate on Fiscal Union*, European Commission Taxation Papers, Working Paper 54, 2015.

11. Proposals for countercyclical instruments typically assume a size of between 0.5. and 2 per cent of EU GDP. See Jeromin Zettelmeyer, *Ist der Euro noch zu retten? Vorschläge für eine neue europäische Wirtschaftspolitik*, Friedrich Ebert Stiftung, September 2016. and Miroslav Beblavý, Karolien Lenaerts, and Ilaria Maselli, *Design of a European Unemployment Benefit Scheme*, CEPS Research report 2017/4, April 2017. However, a lower figure might also work. See Enderlein, H., Guttenberg, L., & Spiess, J. (2013). *Blueprint for a cyclical shock insurance in the euro area*, Studies and Reports, Jacques Delors Institute, September 2013.

12. Article 310 TFEU, "the revenue and expenditure shown in the budget shall be in balance".

budget would be supervised by the European Parliament, not by national parliaments. It would also mean giving member states outside the euro area the power to veto decisions on the financing of such a capacity.<sup>13</sup>

As regards joint financing on defence, under the EU treaties costs related to joint military operations cannot be funded by the EU budget unless the Council unanimously decides otherwise.<sup>14</sup> This explains the existence of a mechanism outside the EU budget to finance common military operations, called ATHENA<sup>15</sup>. Under Athena, each operation has to be approved unanimously by a Committee composed of representatives of the member states. The common costs of military operations are financed on the basis of a GNI-based indicator. The remainder of the expenditure is financed directly by member states on the basis of the “costs lie where they fall” principle. A deepening of cooperation in defence would require a revision of the Athena mechanism to cover more of the common costs of military operations, as recently proposed by the European Parliament<sup>16</sup>. This could go hand-in-hand with the inclusion of a new EU budgetary line on defence research and development, as recently proposed by the Commission (see scenario 4).

### 3.2. ...but it is not always the solution

Differentiation does not always require substantial amounts of funding. Stronger cooperation between the police and judicial authorities is a case in point, as is the harmonisation of social protection standards. In other areas, joint financing is best supplied via the EU budget even if not all member states fully participate in an initiative. The Schengen system is one example. Today, the EU budget co-finances external border and visa management actions, supplemented by contributions from Schengen Associated Countries.<sup>17</sup> That makes sense as all member states benefit from effective external border control and there is a realistic expectation that all will become full Schengen members in the medium term.<sup>18</sup>

## 4. Scenario 4: Focus on added value

 <b>Impact on policies</b>					
Single market & trade	Economic & Monetary Union	Schengen, migration & security	Foreign policy & defence	EU budget	Capacity to deliver
Common standards set to a minimum but enforcement is strengthened in areas regulated at EU level; trade exclusively dealt with at EU level	Several steps are taken to consolidate the euro area and ensure its stability; the EU27 does less in some parts of employment and social policy	Cooperation on border management, asylum policies and counter-terrorism matters are systematic	The EU speaks with one voice on all foreign policy issues; a European Defence Union is created	Significantly redesigned to fit the new priorities agreed at the level of the EU27	Initial agreement on tasks to prioritise or give up is challenging; once in place, decision-making may be easier to understand; the EU acts quicker and more decisively where it has a greater role

The impact of scenario 4 on selected policy areas. Source: European Commission. *White Paper on the Future of Europe: reflections and scenarios for the EU27 by 2025*. March 2017.

13. A EMU fund within the EU budget would have to be financed by a new category of own resources. Introducing a new own resource would have to be adopted under unanimity and approved by members in accordance with their constitutional requirements (Art. 311 TFEU). See Rene Repasi, op. cit. and Anna Iara, op. cit.

14. Article 41.2 TEU, “operating expenditure to which the implementation of this Chapter gives rise shall also be charged to the Union budget, except for such expenditure arising from operations having military or defence implications and cases where the Council acting unanimously decides otherwise”.

15. Council Decision 2011/871/CFSP of 14 May 2007 establishing a mechanism to administer the financing of the common costs of European Union operations having military or defence implications (Athena) <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32011D0871&from=EN>

16. *European Parliament resolution of 21 May 2015 on financing the Common Security and Defence Policy (2014/2258(INI))*.

17. See, for example, the *frontex budget* and Alessandro D’Alfonso, *Internal Security Fund*, European Parliament Briefing, April 2016

18. Henrik Enderlein and Nicole Koenig, *Towards Dublin IV: sharing norms, responsibility and costs*, Policy Paper No.169, Jacques Delors Institut—Berlin, June 2016

The fourth scenario assumes that the EU27 “focuses on delivering more and faster in selected policy areas, while doing less elsewhere”. From a budgetary perspective, this implies making EU spending more efficient and refocusing it on those policy areas that have the highest ‘EU added value’. The exact definition of the term is contested,<sup>19</sup> but it is typically assumed that EU action in a policy area adds value if it helps realise economies of scale or addresses cross-national externalities and threshold effects.

An EU budget guided solely by these criteria would see major cuts to cohesion spending and CAP, which account for the bulk of today’s spending. Conversely, EU spending would be increased in areas such as research and development, trans-national infrastructure, mobility programmes,<sup>20</sup> common border management, defence and foreign policy.

## 4.1. Schengen and the “Defence Union”

Schengen-related spending (asylum, migration, borders and internal security) accounts for about 1% of the EU budget today.<sup>21</sup> Moving towards “systematic cooperation” as described in scenario four could entail raising this share from 1% to 10%, as proposed by the German development minister.<sup>22</sup> This could be accompanied by changes in the modes of allocation. Rather than pre-allocating funding for a seven-year period and on the basis of past migration flows, as is the case today,<sup>23</sup> a yearly distribution could be undertaken on the basis of current data, member states’ needs and a rigorous analysis of the contribution of proposed actions to the achievement of the EU’s stated goals.<sup>24</sup>

The creation of a “European Defence Union” would not only require strengthening and modernising the Athena mechanism, but also moving towards the joint financing of military research and the joint development of military capabilities. The Commission has recently proposed a dedicated EU defence fund within the EU budget that would take first steps into this direction. It would finance large defence research projects and co-finance joint projects for the development of defence equipment and technology. The defence fund is hoped to increase the efficiency of military spending and render military forces more interoperable. Assuming that the Commission’s current proposal is not radically altered,<sup>25</sup> its size would be equivalent to around 1% of the EU budget.<sup>26</sup>

Expanding EU spending on migration and defence while simultaneously adapting to the €10 billion gap left by Brexit would result in drastic reductions to CAP and cohesion spending. This could be achieved by limiting cohesion funding to poorer areas (which may entail savings equivalent to 8% of the current MFF)<sup>27</sup> and the introduction of co-financing for CAP (which, according to a study commissioned by the High Level Group on Own Resources, could mean €29 billion per year of savings to the EU budget, equivalent to 18.6% of the current MFF).<sup>28</sup>

## 4.2. Efficiency considerations

A more focused budget would also need to improve the quality of EU spending. Pre-allocating fewer funds would allow for more competition and increasing the use of financial instruments would enable the EU budget to “do more” by leveraging additional private funds. Conditionality might also prove a useful tool. For example, the disbursement of cohesion and structural funds could become dependent on efforts to implement country-specific recommendations, and all EU spending could be made subject to climate conditionality.

19. Eulalia Rubio, *The “added value” in EU budgetary debates: one concept, four meanings*, Jacques Delors Institute, June 2011

20. For instance the current Erasmus + program could be extended to cover a higher percentage of EU young people, as proposed by Yves Bertoncini and Sofia Fernandes, *Extending Erasmus: a new impetus for youth mobility in Europe*, Jacques Delors Institute, Policy Paper 148, June 2017.

21. Spending for border and asylum management, migration and internal security represented 0.8% of total commitments in the original MFF 2014-2020. With the mid-term MFF revision approved in June 2017, the budget has been increased by 2.55bn and now represents 1.08% of total commitments.

22. Kingsley, Patrick, “Divert 10% of EU funds to deal with refugee crisis, says Germany”, *The Guardian*, 24 May 2016

23. A large part of the available resources under the Asylum, Migration and Integration Fund (AMIF fund) is allocated according to past statistical data on migration influx. See [Regulation 516/2014 establishing the Asylum, Migration and Integration Fund](#).

24. Similar to the ‘Schengen Fund’ proposed by Enderlein and Koenig 2016, op.cit.

25. European Commission, *Defending Europe: The European Defence Fund*, factsheet.

26. The Commission proposes a European Defence Fund with an annual budget of €1.5 billion/year (€0.5 billion for defence research and €1 billion to co-finance the joint development and acquisition of military capacities). This is equivalent to €10.5 billion over seven years, which corresponds to 0.9% of total MFF commitments.

27. €90.6 billion is the total amount allocated to more developed and transition regions in the current MFF (55.4bn to more developed regions and 35.2 to transition regions). See [http://ec.europa.eu/regional\\_policy/en/funding/available-budget/](http://ec.europa.eu/regional_policy/en/funding/available-budget/)

28. CEPS, Université de Pau et des Pays de l’Adour, LSE Enterprise and Deloitte (Jorge Núñez Ferrer, Jacques Le Cacheux, Giacomo Benedetto and Mathieu Saunier), *Study on the potential and limitations of reforming the financing of the EU budget*, 3 June 2016.



Furthermore, there would be more flexible and rapid use of EU money. The administrative burden could be reduced by paying attention to proportionality (e.g. by releasing countries with a good record on using EU funding from detailed audit and reporting obligations). Existing flexibility mechanisms could be extended, and a larger portion of the budget could be reserved for unforeseen events (with the expansion of the recently-proposed European Union Crisis Reserve). The duration of the next MFF could be reduced to five years or, alternatively, subjected to a major mid-term revision.

## 5. Scenario 5: A federal budget

 **Impact on policies**

Single market & trade	Economic & Monetary Union	Schengen, migration & security	Foreign policy & defence	EU budget	Capacity to deliver
Single market strengthened through harmonisation of standards and stronger enforcement; trade exclusively dealt with at EU level	Economic, financial and fiscal Union is achieved as envisioned in the report of the Five Presidents of June 2015	As in "Doing less more efficiently", cooperation on border management, asylum policies and counter-terrorism matters are systematic	As in "Doing less more efficiently", the EU speaks with one voice on all foreign policy issues; a European Defence Union is created	Significantly modernised and increased, backed up by own resources; a euro area fiscal stabilisation function is operational	Decision-making is faster and enforcement is stronger across the board; questions of accountability arise for some who feel that the EU has taken too much power away from the Member States

The impact of scenario 54 on selected policy areas. Source: European Commission. *White Paper on the Future of Europe: reflections and scenarios for the EU27 by 2025*. March 2017.

In scenario 5 of the White Paper, all member states agree to do much more together across all policy areas and to provide for faster and more effective decision-making at EU level. What kind of budget would be needed to support this vision? Not only would it need to be bigger, but its governance and financing system would also need to be improved.

Higher spending would be needed in the "Schengen-related" areas and on defence, as outlined in the previous section. Additionally, cuts cannot be inferred from the scenario, so we assume that the budget allocations for CAP and cohesion would be roughly maintained, even if major reforms might change the design of the programmes and allocation criteria to increase the quality of EU spending.

### 5.1. A budget for a completed EMU

Achieving a full economic, financial and fiscal union, as outlined in the report by the Five Presidents, will require additional funds. Not only would the budget need to act as a stabiliser during economic downturns, but it would also need to support broader objectives. This could include providing a fiscal backstop for the Banking Union to ensure financial stability, or offering reform incentives to foster convergence. Such a budget would require an appropriate system of governance, composed of an effective executive arm such as a euro-area treasury capable of taking swift decisions and an appropriate parliamentary arrangement to ensure democratic control.<sup>29</sup>

29. Valentin Kreilinger and Morgan Larhant, *Does the Eurozone Need a Parliament?*, Policy Paper No. 176, Jacques Delors Institut, November 2016. Henrik Enderlein, Jörg Haas, *What would a European Finance Minister do? A proposal*, Policy paper, Jacques Delors Institut—Berlin, October 2015.

## 5.2. Reforming budgetary procedures

At present, one of the two EU budgetary authorities (the Council) has much more say than the other (the European Parliament) in deciding amounts and level of funding. Decisions on the EU's multiannual financial framework (MFF) are taken by unanimous vote, which results in a narrow focus on net balance considerations. Many experts have proposed using Qualified Majority Voting (QMV) to counteract these dynamics. However, this does not guarantee that member states' will abandon "juste retour" thinking and focus more on EU priorities. Another option would be to give the European Parliament a much greater role. But as long as the EU budget is partly financed by contributions coming from national budgets, it seems logical to give member states some control over the level of EU spending. A possible solution might be to maintain the Council's privilege of setting the overall spending ceiling but to give the European Parliament more say in deciding how to distribute the money across programmes and budget headings.

## 5.3. A new revenue system

Regarding the EU financing system, the bigger the budget becomes the more crucial becomes the question of how it is funded. New sources of finance would need to be "real" own resources in the sense that they accrue directly to the EU and are not perceived by member states as membership fees that need to be recovered. If spent on projects that genuinely benefit the entire EU, these revenue sources would be less vulnerable against the "net balance" thinking that currently dominates the budget debate.

The report by the "Monti Group" made the case for new own resources earlier this year but also showed that there is no single perfect income source for the EU.<sup>30</sup> Some options disadvantage poorer citizens or poorer member states, others are hard for citizens to understand or do not raise enough stable revenue.<sup>31</sup> One candidate that scores well across several dimensions is an EU-wide corporate income tax building on a harmonised tax base. The reasoning is that companies are taxed in one member state but they can do business—and generate profits—across the entire Single Market. It therefore seems fair that the entire EU should benefit from a percentage of the higher earnings. Another promising option is a CO2 levy that either taxes emissions directly or applies to CO2-intensive products. It could boost green investment and help the EU meet its climate protection goals. It would also be possible to consider a limited basket of EU taxes rather than one single EU tax. This would allow for a widespread distribution of the burden and would make revenues more stable.

30. Mario Monti et. al, op.cit.

31. For a comparison of the most promising options, see Jörg Haas, *Very resourceful: The Monti Report on reforming the EU revenue system*, Blog Post, Jacques Delors Institut—Berlin, February 2017.

## CONCLUSION

While the various visions for the EU's future require very different budgets, there are some aspects that should be kept in mind no matter which vision the EU27 ultimately choose.

- The budget in its current form will not be able to support even a moderate reform path. Brexit will leave a revenue shortfall while at the same time, implementing the Rome roadmap requires higher spending. In these circumstances, keeping the EU budget at one percent of EU-GNI is not realistic.
- More spending on EMU, Schengen and defence is desirable. But the EU needs an honest debate on the consequences of these choices. If the new priorities are to be financed by reducing other spending, specific proposals and their political viability need to be assessed. Introducing co-financing for the Common Agricultural Policy seems promising, but in the face of the strong political resistance it might be worthwhile to explore alternatives. Ultimately, slightly higher contributions might still be inevitable.
- Financing policies via the EU budget is superior in terms of simplicity and accountability. However, when agreement among the EU27 is impossible, member states should not hesitate to create instruments outside the budget that can later be integrated. This might be especially relevant to the euro area.
- The EU's budgetary procedures and its revenue system need to be reformed. This is inevitable in scenario five, but it is also highly desirable in all other cases. Brexit offers a window of opportunity to abolish rebates, and the Monti Group has presented a convincing roadmap that ties revenue reform to progress on reforming expenditure.

This publication is part of the research project “Repair and Prepare: Strengthen the euro” by the Bertelsmann Stiftung and the Jacques Delors Institut – Berlin.

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