

A Forward Path For the EU Budget

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Agenda



- I. The EU Budget Today**
- II. The Public Goods a Central Budget Could Deliver**
- III. A Path to a Larger and More Politically Sustainable EU Budget**

Today's EU Budget (Won't Survive Brexit)



~\$165bn/year and
80% is direct
GNI/VAT-based
transfers

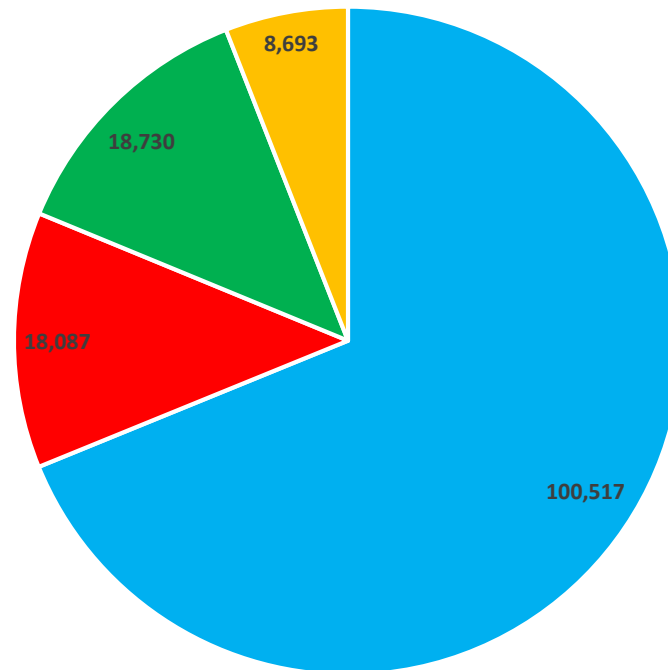
Only ~10 percent is
genuine "European
revenue"

UK 1984 Rebate
introduced various
"national budget
corrections"

Focus on "national
net contributions"
similar to US pre-
XIV Amendment
federal budget

EU Budget Resources by Category, Euro Billion, 2015

- GNI-based Own Resource
- VAT-based Own Resource
- Traditional Own Resources (TOR)
- Other Revenue



Public Goods a Central Budget Could Deliver



I. “Economic Convergence”

- Hard if not impossible to deliver
- Required budget size politically impossible to (ever) achieve

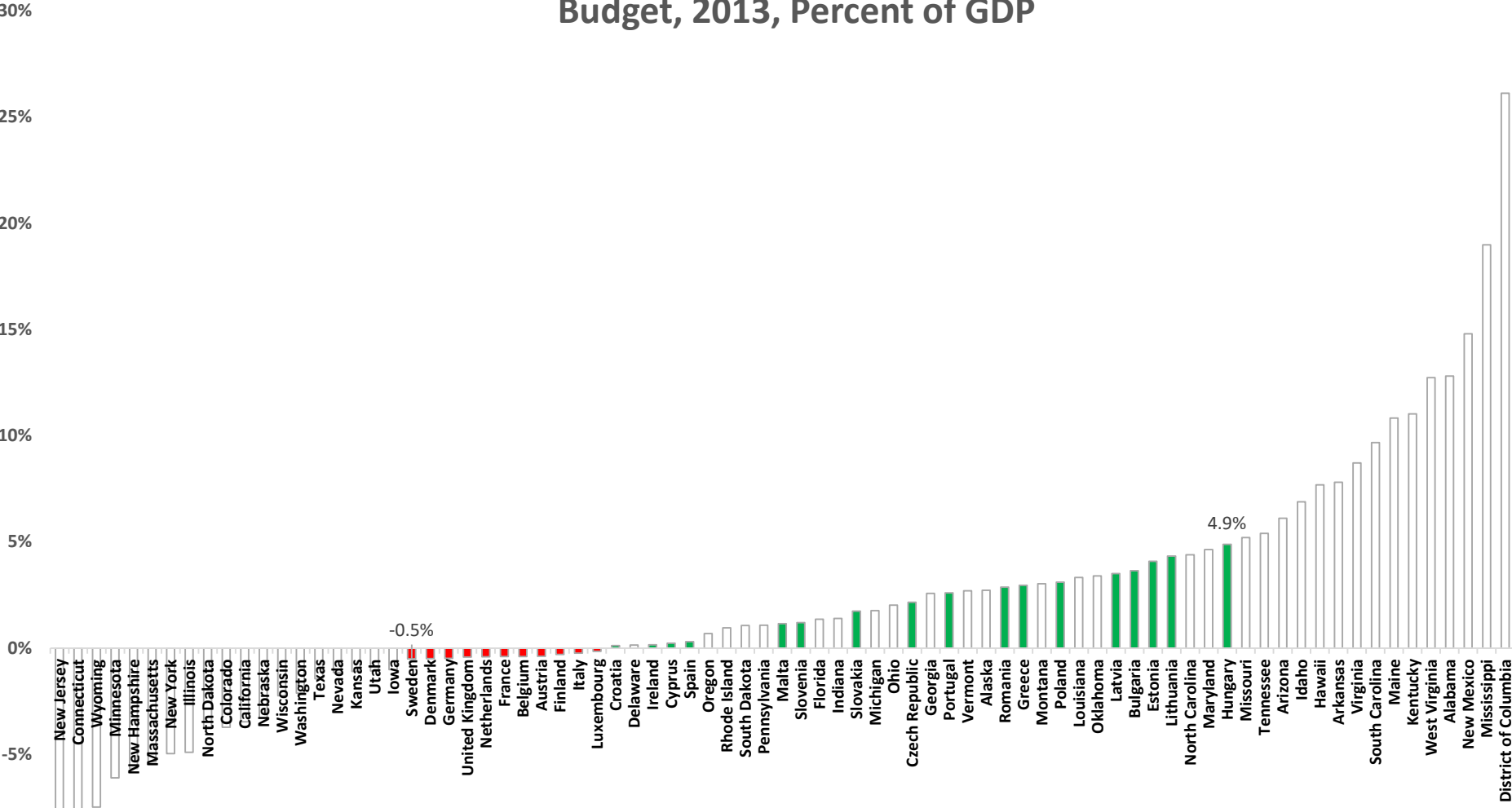
II. “Counter-Cyclical Buffer”

- Not easy to do through regular EU budget items (automatic stabilizers are MS)
- Banking Union is not part of the EU budget
- Best done by “debt financing” (but Eurobonds are for the future)
- Possible to give the ESM/EMF a banking license and do it conditionally
- Supplementary “European level” catastrophic level unemployment insurance

Geographic Redistribution ≠ Counter-Cyclical



Implied Fiscal Redistribution in EU and (Balanced) U.S. Federal Government Budget, 2013, Percent of GDP



Source: NY State Comptroller (2015); EC (2016)

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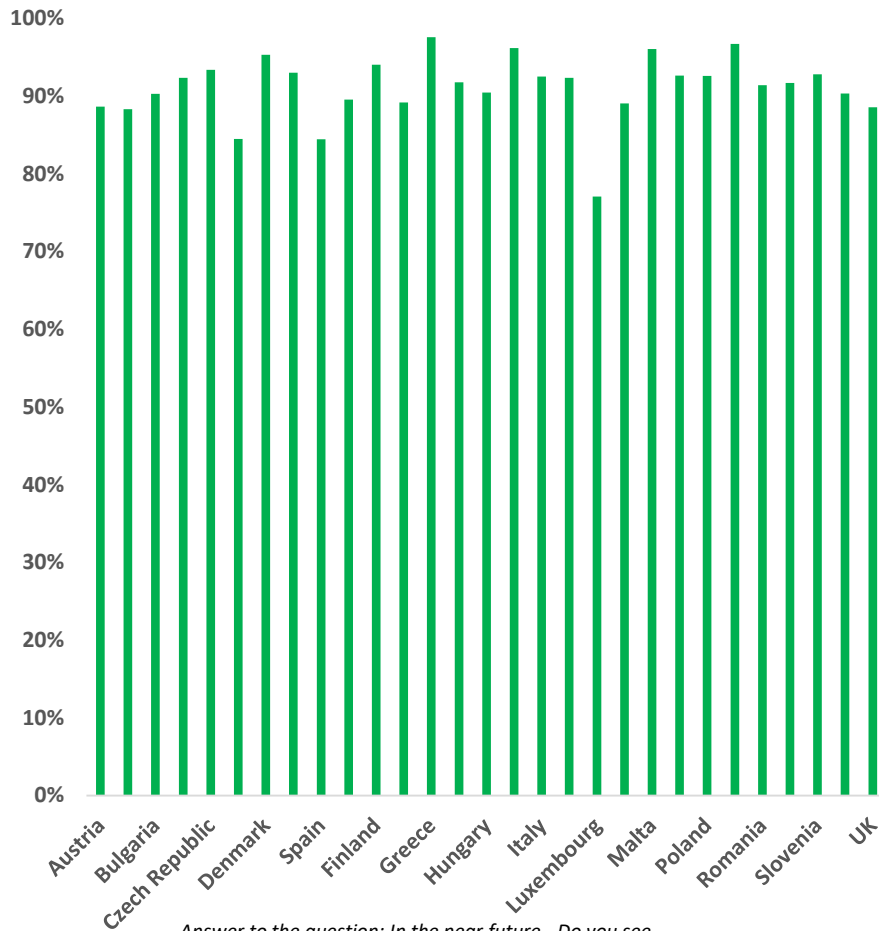
III. “Best Solved at Regional Level (Subsidiarity)”

- EU powers determined by where “EU-level value-added” exist
- Subsidiarity is a “living concept” that evolves over time
- How to best finance the regional solution of policy challenges?

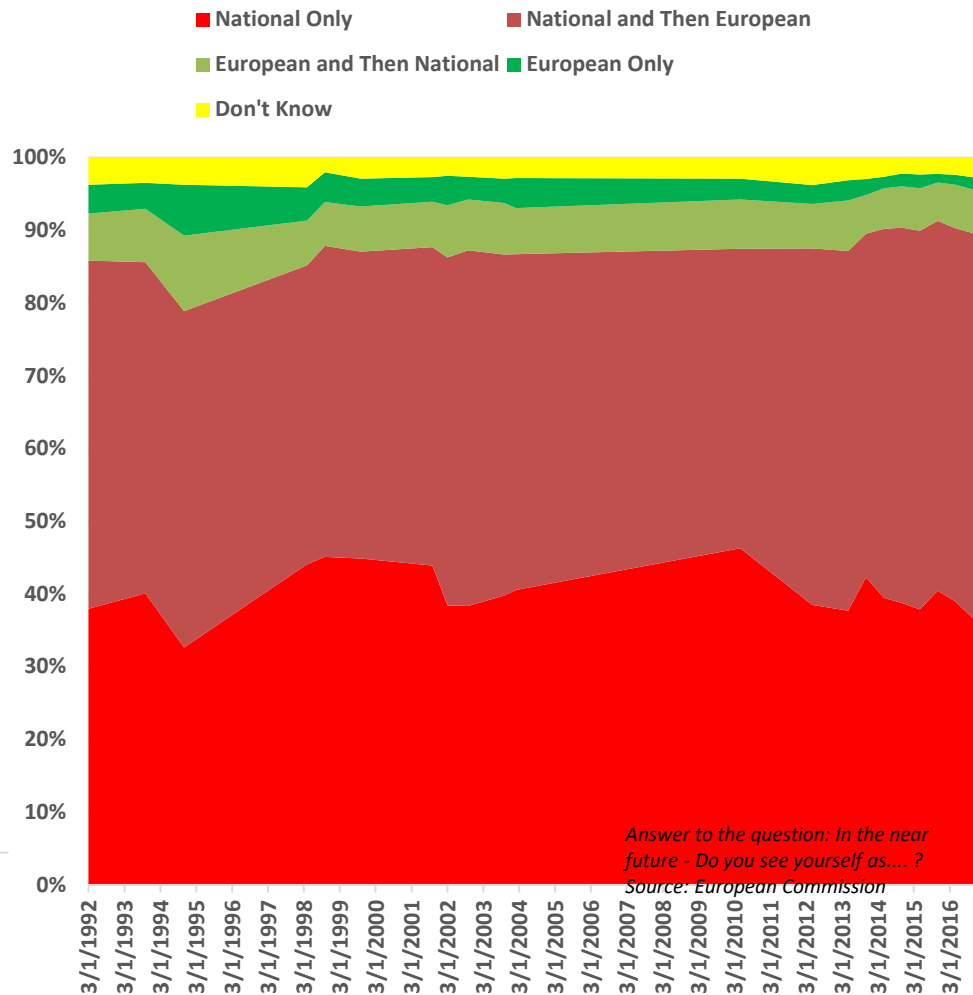
Direct Tax Financing Not Happening



Share of Residents Feeling National Only or Predominantly National, Fall 2016



Feelings of Self-Identity, Share of EU Residents 1992-2016



Earmarked Revenue Widely Used in U.S.

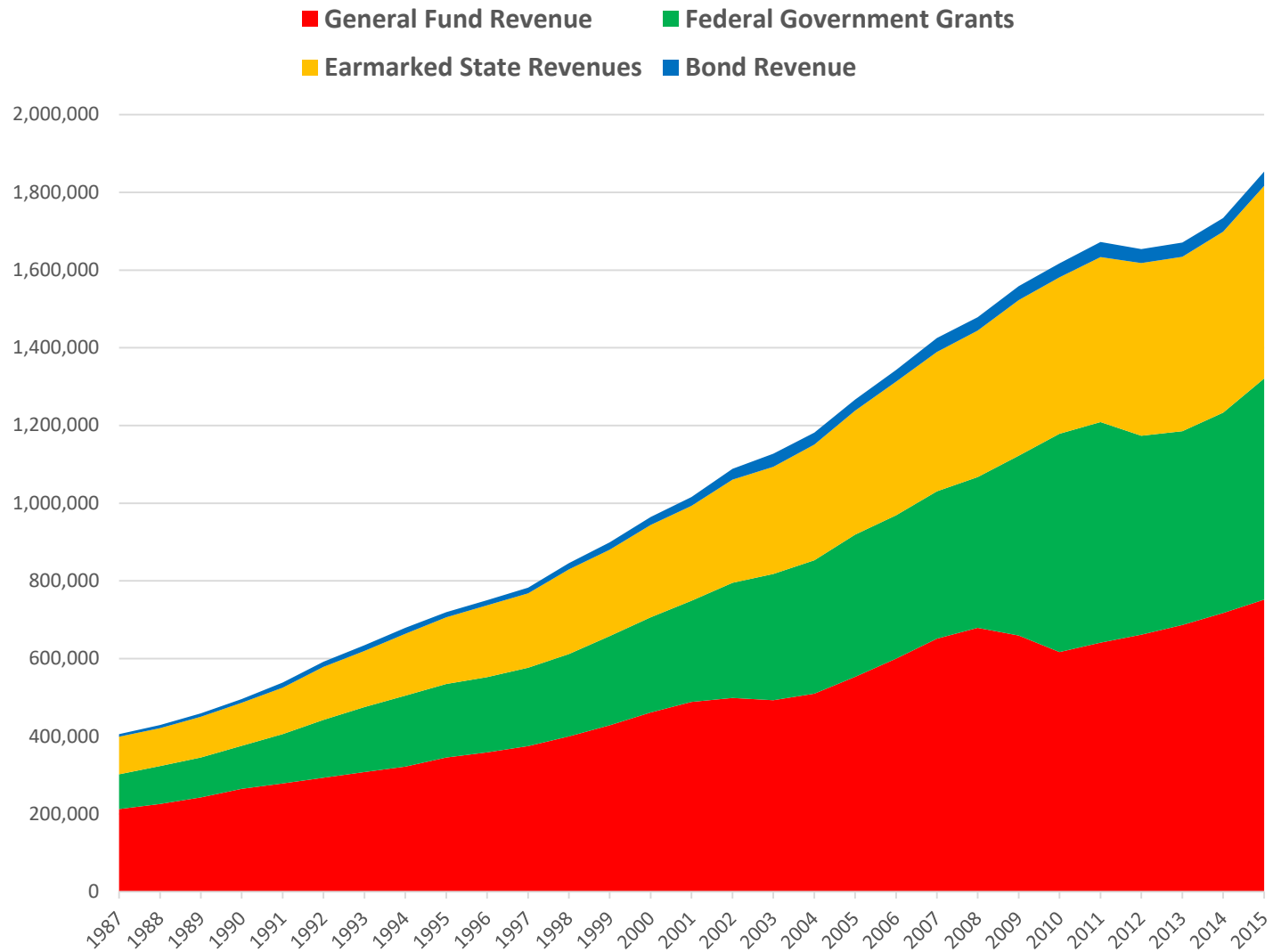


U.S. states derive a minority of revenue from general taxes with full discretion over use

Earmarked U.S. state revenue over 25% of total revenues

35% of U.S. federal budget is earmarked “trust fund revenue”

U.S. State Revenues, By Source, \$USmn 1987-2015



Earmarked Revenues = Bigger EU Budget?



- With voters' self-identity/allegiance at member state level, *single tax for single public service* may be EU's only avenue to raise indirect tax/fee revenue
- Simpler and therefore democratically more legitimate than current complex budget process
- Some applications:
 - Explicit user fees; polluter pays principle or € ETIAS fees
 - Fees on related use items; HTF structures that for instance finances infrastructure through gas taxes, climate mitigation through ETS revenue
 - Broad taxes earmarked for specific EU budget items; finance a CAP through a 2% VAT on food?

Concluding Remarks



- **Current EU budget structure is under pressure from Brexit and the evolving challenges facing the EU**
- **Not politically feasible in the short-term to achieve economic convergence or counter-cyclical buffer capacity through regular EU budget**
- **EU budget to focus on funding solutions to regional challenges**
- **Financing the EU budget through an increasing use of earmarked revenue from targeted indirect taxes/fees best path to more direct European revenue**
- **Earmarked revenue probably best path to a larger and politically sustainable EU budget**