New Proposals for Financing the EU Budget after 2020

Abstract

The present study concerns the issue of financing the budget of the European Union. The article presents selected factors in the evolution of EU finances and delineates the attempts at replacing the sources of financing taken up in 2011 and pertaining to the financial perspective of 2014–2020. Scenarios for EU development have been indicated, with particular emphasis on their implications for the future shape of the EU budget. The article also presents the main priorities and assumptions of EU financing after 2020 in the context of accepted multiannual financial framework.

Key words: EU Budget, Multiannual Financial Framework, Cohesion Policy, EU Finances

Introduction

Every seven years, the EU decides about the directions of Europe’s development, about the Union one would like to see in the future. This moment is always critical, as it is accompanied by extensive debate on the subject of the manner of financing the new challenges arising in the changing regional and global conditions.

The purpose of the study is to present selected factors in the evolution of EU finances, new proposals from the European Commission as regards the introduction of changes in the sources of financing the EU budget, which would ensure financing of activities to date as well as new challenges faced by the EU. Moreover, it is to indicate possible variants of
financing the future development of the Union, and to present the main
priorities and assumptions of the EU budget after 2020.

The preparation for the study was mainly based on literature of the
subject, communications and documents of the European Commission,
the European Parliament, High Level Group reports as well as other topi-
cal information. The research method applied was analysis and synthesis.
Due to its thematic scope, the study constitutes a voice in the discussion
on the subject of future financing of the EU budget and in its character
does not constitute a complete study.

Selected Factors in the Evolution of EU Finances

The present shape of EU finances is determined by the evolution of
common policies, which are of great importance to the development of
the Union’s finances.

In the 1980s and 1990s, the Member States and the European Parlia-
ment introduced changes in the EU founding treaties, thus broadening
the scope of the EU’s competences. Acknowledging the need to support
the new, single market, they increased the resources available within the
structural funds in order to support economic, social and territorial cohe-
sion. At the same time, the EU’s significance in all the areas of economic
development, i.e. transport, outer space, healthcare, education, culture,
consumer protection, environmental protection, scientific research, judi-
cicial cooperation and foreign policy. Since 2000, the EU budget has been
shaped by accession of 13 new Member States in varying socio-economic
situations, as well as by successive EU strategies for economic and em-
ployment growth. European resources were also supporting the growing
role of the Union on the international arena as an organization actively
participating in climate change control and as the main donor of humani-
tarian and development aid in the world. The EU budget still constitutes
only a small part of total public expenditure in the EU, as it represents less
than 1% of income and only approximately 2% of public expenditure in
the EU. With time, the structure of the EU budget is changing. Despite
its reduction, the total expenditure on agriculture and cohesion policy
still exceeds 70% of all expenditure. Currently, the expenditure of the EU
budget increasingly concentrates on scientific research, trans-European
networks and external activities, as well as programmes managed directly

1 Communication From The Commission To The European Parliament, The Eu-
ropean Council And The Council, A new, modern Multiannual Financial Framework for
a European Union that delivers efficiently on its priorities post-2020, European Commis-
at the European level. Apart from the abovementioned expenses, the EU budget was also used to finance efforts related to mitigating the migration crisis and combating organized crime and terrorist activity. As regards the migration crisis, the resources allocated to security and migration were doubled in order to support, for example, the new European Border and Coast Guard and providing aid to the Member States where significant numbers of refugees arrive.2

Along with the increasing needs for financing new challenges and emerging economic and social problems, the structure of the expenditure and the ways of obtaining the resources for financing them change. In contrast to national budgets, the EU cannot adopt a budget which results in a deficit, which implies inability to incur debt.

In its construction, the budget is based upon financing the expenses through the mechanism of “own resources”. There are currently three main types of own resources: contributions from the Member States based upon their income levels, measured as Gross National Income (GNI), contributions based upon VAT and customs fees collected on the external borders of the Union. Currently over 80% of the EU budget comes from national contributions based upon GNI and VAT.

In response to the growing needs for financing, the EU budget has been supplemented with a series of new instruments. Some of them function outside the EU budget and are subject to separate regulations, e.g. the European Investment Bank, the European Investment Fund3 or other bodies operating on the basis of intergovernmental agreements, i.e. the European Development Fund. EU mutual funds, as well as other instruments have also been created in order to contribute resources from the EU budget, the funds of the Member States, and other donors for the benefit of the activities related to preventing any possible crisis situations. On the one hand, such extended financial architecture enables the EU to mobilize additional resources, yet on the other hand it leads to increased complexity of the Union’s finances.4

---


3 EIB together with EIF forms the so-called European Investment Bank Group.

4 Dokument otwierający debatę..., op. cit., pp. 7–9.
Proposals by the High Level Group Regarding Changes in the Sources of Financing the EU Budget

For over a decade, discussions have been held on the necessity to introduce new reform as regards obtaining funds for financing the European Union and the execution of its tasks. The European Parliament, which has little impact on the shape of the income side of the EU budget, has been signalling the need for reform of the own resources system for a long time. The Parliament has emphasized that the purpose of the reform is not to raise the amount of EU expenditure, but to improve the manner in which funding for its coverage is obtained. A significant obstacle to reforming the system is the decision-making mechanism, which requires unanimity and ratification by all Member States. The most recent reform proposal was submitted by the European Commission in 2011, within the multiannual financial framework proposal package for the years 2014–2020. Its objective was to transform the system and improve its functioning through introducing changes in the problematic areas. In particular, though, the objective was to introduce new, original own resources in order to diminish the role of national contributions.5 The need to introduce new sources of financing the EU’s tasks results also from the fact that in the recent years, the amount of overdue payments increased up to 24.7 billion EUR at the end of 2014. The issue of overdue payments emphasises that the budget is mainly financed from member-state contributions, and the timeliness of them being paid is closely connected to the state of the public finances of the Member States. The new resources should be constructed in such a way as to guarantee the realisation of all EU programmes.

One of the premises of the European Parliament expressing agreement to multiannual financial framework for the years 2014–2020 was the establishment of the High Level Group consisting of the members of three institutions, i.e. the European Parliament, the European Commission and the Council. The Group was established in order to conduct a general review of the financing of the EU.6

6 The president of the Group is Mario Monti – Rector of the University of Bocconi, former Prime Minister of Italy and European Commissioner. Members:
   a) appointed by the European Parliament: Ivailo Kalfin (Group of the Progressive Alliance of Socialists and Democrats in the European Parliament), Alain Lamassoure (European People’s Party), Guy Verhofstadt (Alliance of Liberals and Democrats for Europe); b) appointed by the Council: Daniel Dăianu, former Member of the European-
The first report of the Group’s work proposed possible elements of global European financial package applicable to both expenditure and revenue, i.e.:

- a restructured multiannual financial framework, due to increased common expenditure on public goods, focused on achieving a higher value added at the EU level and corresponding to the character of the relevant challenges,
- introduction of new own resources, in addition to traditional own resources and GNI-based own resources, that would meet the standard criteria of sufficiency and stability, vertical and horizontal aspects of the requirements of “justice”, and would also allow to pursue EU policy objectives,
- examination of other sources of income resulting from EU policies and programmes that would be recorded in the EU budget as ordinary income rather than own resources,
- implementation of minimum procedural reform,
- introduction of elements of differentiation, such as closer cooperation, if it is accurately justified.\(^7\)

Moreover, a close-down of all rebates and corrective mechanisms was proposed. The liquidation of rebates was also proposed by C. Fuest,\(^8\) who claims that it is necessary to depart from VAT-related payments and base budget revenues on payments related to GNI, which would significantly increase the transparency of the EU budget. At the same time, it is not excluded that the payments could be progressive or regressive, depending on political decisions.\(^9\)

---


\(^8\) The President of the Munich Ifo Institut and Professor of the University of Munich, in the article “Reform of the European Union budget: small changes can lead to significant improvement” (Ifo Schnelldienst 6/2017).

The report and recommendation from the session of the High Level Group proposed to introduce new sources for financial resources acquisition, i.e.:

- CO₂/coal price fee,
- fees related to EU emissions trading schemes,
- motor fuel charge (fossil fuel taxes/excise tax),
- electricity taxation-based own resource,
- CCCTB (Common Consolidated Corporate Tax Base Including Consolidation Regime and Apportionment Mechanism), common consolidated corporate tax base, including a system of consolidation and a mechanism for vote distribution,
- a tax on financial transactions or an alternative option,
- a bank tax or a tax on financial activities,
- reformed VAT-based own resource, and
- seigniorage – the central bank’s revenue or government revenue resulting from the difference between the nominal value of banknotes and coins in circulation and their production costs. In the euro area (EA) this revenue is currently collected by the European Central Bank (ECB).¹⁰

Practically speaking, the abovementioned proposals for introducing new sources of obtaining funds are not new. In fact, they are being returned to periodically, depending on the political and economic conditions in the Member States and the general political climate of the European Union. The introduction of a fee based on CO₂ emissions, a corporate tax on legal entities, and a modification of VAT were already raised by the Commission in 1998 and 2004.¹¹

As regards income tax proposals, it should be noted that corporate income tax rates differ significantly from consumer taxes throughout the EU and are also less stable over time. At present, CIT revenue accounts for 2.4% of EU-28 GDP (data from Eurostat, 2014), but with a very significant difference in individual Member States, ranging from 1.4% of GDP in Hungary, Lithuania and Slovenia to 4.45% in Luxembourg, 6% in Malta and 6.4% in Cyprus. A general decline in CIT can be observed. The actual trend towards a decreasing interest rate in CIT in the EU was much more noticeable than in other OECD countries, the most likely ex-

A. Kłos, New Proposals for Financing the EU Budget after 2020

Explanation for which is tax competition aimed at attracting companies by reducing the tax base and obtaining profits from the single market. The UK government announced that the CIT rate, amounting to 30% in 2008, was reduced to 20% and it is to reach 17% in 2020. The practical aspects of introducing CIT in the EU would have to include the introduction of the CCCTB (proposed by the Commission), making it mandatory for the enterprises concerned and establishing a common rate for financing the EU budget. Such reform may be considered necessary in terms of integrity, as multinational corporations pay a lower effective tax rate than small and medium-sized enterprises in Europe. The introduction of the CCCTB would reduce “aggressive” tax optimization and would probably increase the overall efficiency of CIT in the EU.\(^\text{12}\)

The mandatory implementation of the CCCTB, in line with the European Commission’s action plan for fair and effective taxation of legal entities in the European Union, can effectively reduce the gaps in sustainable development. Harmonisation of the rules for building the tax base would eliminate the differences between nominal and effective tax rates for enterprises. In addition, governments and all enterprises subject to the CCCTB system will have symmetrical information about the effective tax rate.\(^\text{13}\)

Energy tax and carbon taxes have been proposed by the Commission multiple times since 1991. These taxes may be justified by the financing of a stable budget due to their low short-term volatility and high long-term flexibility. Moreover, these taxes have the advantage of internalizing cross-border externalities and can reduce the level of carbon imbalance once it has been established at the EU level. In fact, fighting pollution at the Member State level has been quite disappointing. While emissions from the manufacturing and construction industries decreased by 327 million tons of CO\(_2\) in 1990-2012, emissions in transport increased by 221 million tons. There are at least two reasons for this state of affairs. The first is that reduction of emissions from the manufacturing industry results not only from technological advances, but may also come from external relocation. The second is that the increase in transport emissions does not come from a small polluting sector: transport accounted for around 20% of total EU emissions in 2012. It is also worth noting that the latest progress in reducing greenhouse gas emissions coincided with a recession in the UK. A significant part of the decline can be attributed to lower growth levels, not structural changes resulting from technologi-

\(^{12}\) Ibidem, pp. 88–90.
cal changes and environmental policy. As a result, to achieve the goals (40% reduction by 2030 and 85–90% by 2050), it is necessary to introduce changes to the relevant EU environmental policies. However, it cannot be unequivocally believed that the agreement reached at the UN Climate Change Conference in 2015 in Paris is going to strengthen this EU instrument, meant to generate revenue for the Union budget.\footnote{J. Núñez Ferrer, J. Le Cacheux, G. Benedetto, M. Saunier, op. cit., pp. 91–92.} In 2017, the President of the United States, Donald Trump, announced the decision to withdraw the United States from the Paris climate agreement, because in the President’s opinion it is “extremely unfavourable to the US, but works in favour of other countries”. In addition, “environmental objectives approved by the previous administration of Barack Obama are too costly for the American economy”. The withdrawal of the US from the Paris Agreement might mean a decline in its importance on a global scale, and consequently the delay of or departure from planned revenue reforms in the area of environmental policy.

The EU excise duty on fossil fuels or the EU tax on petrol and diesel fuel is often seen as a way to finance infrastructure, such as road construction. Given that a significant part of the EU budget would be spent on infrastructure, such a tax at the EU level to finance these public goods may seem justified. Fuel charges have not been designed to be derived from environmental taxes, but the role of this policy instrument for climate change has to be fully appreciated as it is one of the few tools that have helped to reduce fuel consumption in many countries, in particular in Europe. Economists agree that such taxes would encourage environmental conservation and technological change (e.g. more efficient engines).\footnote{Ibidem, p. 92.}

**Five Scenarios for the Future of the Budget of the European Union**

While analysing the proposals for new sources of financing the EU budget, current internal conditions in the EU need to be taken into account. On 1\textsuperscript{st} March 2017, the European Commission presented the so-called *White Paper on the future of Europe: Avenues for unity for the EU at 27*, where five scenarios for 27 countries (not including the United Kingdom) until the year 2025 had been described, i.e.:

1. EU-27 continues the implementation of the positive reform programme,
2. EU-27 jointly undertakes fewer actions in all policy areas,
3. EU-27 allows groups of Member States to undertake more actions in specified areas,
4. EU-27 undertakes more actions in some areas, but fewer in other ones,
5. EU-27 decides to jointly undertake more actions in all policy areas.

**Table 1. Five scenarios for EU development until 2025 – implications for the EU budget**

<table>
<thead>
<tr>
<th>Scenario Description</th>
<th>General principles:</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-27 continues the implementation of the positive reform programme</td>
<td>Overall stable budget. Reflects the current reform programme of EU-27. Lower relative participation of cohesion policy and agricultural policy in order to finance new priorities. Greater utilisation of financial instruments and guarantees. Revenue: Current system of no rebates. EU budget is being financed from other sources of income or fees.</td>
</tr>
<tr>
<td>EU-27 jointly undertakes fewer actions in all policy areas</td>
<td>Significantly limited budget. Emphasis on the functioning of the internal market. Significantly limited funds for cohesion policy and agricultural policy. Significantly higher utilisation of financial instruments and guarantees. Revenue: Current no rebates system.</td>
</tr>
<tr>
<td>EU-27 allows groups of Member States to undertake more actions in specified areas (multi-speed Europe)</td>
<td>Overall stable budget with the possibility to increase it to include areas of joint action. Greater utilisation of financial instruments and guarantees. Revenue: Same as in Scenario No. 1 + new policies financed solely by participating Member States, through the medium of the current system, or new own resources (e.g. financial transaction tax). A new stream of revenue outside the current financing system or ad hoc financial contributions.</td>
</tr>
</tbody>
</table>
EU-27 undertakes more actions in some areas, but fewer in other ones

General principles:
Smaller budget.
Limited participation of cohesion policy and common agricultural policy.
Focus on the priorities with very high European value added.
Significantly greater utilization of financial instruments and guarantees.

Revenue:
Simplification of the current system: scrapping all rebates, reform or abolition of VAT-based own resources.
New own resources finance part of the EU budget and contribute to the achievement of policy objectives (e.g. environmental tax, financial transaction tax, common consolidated corporate tax base).
EU budget is financed from other sources of income or fees.

UE-27 postanawia podejmować wspólnie więcej działań we wszystkich obszarach polityki

General principles:
Significantly increased budget.
Significant additional financing of new priorities and external actions.
Greater utilisation of financial instruments and guarantees.
Raised own resources ceiling.

Revenue:
A thorough reform exceeding the assumptions of Scenario No. 4.
New own resources finance a large part of the EU budget and contribute to the achievement of policy objectives.
The EU budget is financed from other sources of income or fees.


Each of the abovementioned options bears different consequences to the EU budget, and consequently it is important to pay attention to the proposals from the areas subject to financing from EU resources.

The first variant proposes to direct support towards farmers who find themselves in particularly difficult circumstances (e.g. small farms, mountainous areas and sparsely populated areas) and to prepare tools for risk management for all farms. It would be necessary to invest in the development of rural areas (particularly in the agro-environmental area). Within the framework of economic, social and territorial cohesion, the introduction of the first variant would be tied to lowered level of investment in all regions, but a higher level of national co-financing and utilization of

158
financial instruments. It would be advisable to put greater emphasis on social inclusion, employment, skills, innovation, climate change, energy and ecological transformation. It is also stipulated to include new financing priorities, i.e. internal/external security, migration and border control, defence (research and development, capacity).

As regards version 2, support for farmers who find themselves in particularly difficult circumstances would also be necessary. Within the framework of economic, social and territorial cohesion, help would only be granted to countries covered by cohesion policy and for the benefit of cross-border cooperation. At the same time, there would be no funding for new EU priorities and other programmes such as Erasmus, scientific research and innovation, assistance for those in the greatest need, health, culture, citizenship etc.

In the third scenario, the scope of financing expenditure would be the same as in the first one. Introduction of additional sources of financing and innovative financial instruments is proposed. Expenditure on enhanced cooperation would be included into the EU budget (e.g. European Public Prosecutor’s Office). Resources outside the EU budget, e.g. mutual funds, would be combined. For euro area countries, instruments would be introduced to stabilise the macro-economic level through investment protection/unemployment reinsurance/a “rainy day” fund.

In the fourth scenario, within the framework of common agricultural policy, direct payments would be limited. The focus would be on farmers in especially difficult circumstances. Apart from financial support for the poorer regions only and for cross-border cooperation, emphasis would be exclusively on social inclusion, employment, skills, innovation, climate change, energy and ecological transformation. There are plans to include new priorities for financing, including funding for the counter-terrorism agency and management of migrations with border control and coast guard using common equipment. Intelligent transport and smart energy grids, world class scientific research and development, and e-transport would all be subject to enhancement.

Making the last variant a reality would necessitate allocating a higher amount to expenses related to the implementation of common agricultural policy. Economic, social and territorial cohesion would be implemented on the same principles as in the first scenario, with enhanced social dimension, territorial cooperation and urban dimension. In this scenario, new priorities and priorities with high value added would be included, as in the fourth scenario. It would be necessary to introduce structural reforms connected to the European Semester. Within the common security and defence policy, common funding and public procurement, the EU
budget would be supplemented by an extra-budgetary fund. A venture capital fund instrument would also be introduced, as well as a fully functional euro area budget and the European Monetary Fund. All external activities would be subject to enhancement, and the European Monetary Fund would be included in the budget.\(^\text{16}\)

The fifth, so-called federalist, version means significant expansion, and a need to secure own revenue sources for the EU, perhaps even in the form of a certain type of European tax. The smallest changes would be present in the first scenario, where a common budget would be “partially modernised and adjusted to the reforms agreed upon by the 27 countries”. The choice of one of the remaining options would lead to a change in goals on which the common funding would be spent. In case of variant No. 3, i.e. “multi speed Europe”, being chosen, countries willing to cooperate more closely in a particular area would have to assign additional resources to that cause. It is particularly important to note that the United Kingdom might exit the EU, and it is the second biggest net contributor after Germany.\(^\text{17}\)

According to W. Gadomski, the proposals of changes in the rules regarding the EU budget amount to a small reform which will not violate the basic principles, i.e. a balanced, small and static budget. Meanwhile, the countries of the euro area have decided to create their own budget, which is going to be more flexible and its size will enable active fiscal policy, or more broadly, a policy mix. The European Economic and Social Committee of March 10\(^\text{th}\). 2017 expressed an opinion in this respect, stating that: “It is necessary to make progress on the way to an adequate own budget for the euro area, which would be accompanied by common regulations. This is the only solution that will allow us to take steps towards a common tax policy and shock absorption that may occur in the future”.\(^\text{18}\)

In the 1970s, the British economist D. MacDougall emphasized the fact that “in order to work and absorb shocks, the monetary union would require a budget of 5–7% of GDP, which is 500–700 billion euro,” which is four times more than the current budget for the whole Union. In its report

\(^{16}\) Dokument otwierający debatę..., op. cit., s. 31–35.


on the possibility to create a budget for the euro area (May 2016), the Committee on Budgets and the Committee on Economic and Monetary Affairs of the European Parliament accepted these values as a starting point. The countries of the euro area would have to allocate approximately 10% of state expenditure to create a federal budget. However, it is unknown how it would be created, whether in proportion to GNI or taking into account the wealth of particular states. In addition, it is not yet settled which positions in the expenditure would be moved to the federal level and what the rules for financing the federal debt would be.\textsuperscript{19} A big challenge should be taken into account related to coordinating the euro area budget with the EU budget. It is emphasised in the European Parliament Committee report that “the mechanism of fiscal capacity must be created upon the basis of existing EU financial instruments, within their legal framework, in order to provide cohesive growth of Euro area Member States, as well as Member States from outside this area”. If a separate budget will indeed be created for the euro area countries, they will need to take into account a diminished cash inflow from the EU budget.\textsuperscript{20}

The Main Priorities and Assumptions for Financing the EU Budget after 2020

At the meeting on 23\textsuperscript{rd} February 2018, the leaders of the EU discussed the ways to ensure that the EU priorities agreed upon on 16\textsuperscript{th} September 2016 in Bratislava and on 25\textsuperscript{th} March 2017 in the Rome Declaration\textsuperscript{21} are properly implemented. These two aspects, i.e. delineating common priorities and guaranteeing appropriate resources for the EU to implement them, are inextricably connected to each other. While discussing the subjects of undertaking action in the area of protecting external EU borders, support for a true European Defence Union, supporting digital transformation of Europe, or increasing the effectiveness of EU cohesion policy and agricultural policy, it is important that the decision-makers realise the degree to which their decisions will cause practical consequences for establishing the sources of financing from the EU budget of the abovementioned priorities. The European Commission estimates that if EU leaders decide in favour of including the new priorities regarding better protection of the external borders of the EU, the expense of 20–25 billion EUR should be expected within the next seven years, and even up to 150 billion

\textsuperscript{19} Ibidem.
\textsuperscript{20} Ibidem.
if a fully developed EU border management system was to be created (currently, the budget is 4 billion EUR). In case of further development of the European Defence Fund, out of which the European Defence Agency is funded, expenditure of approximately 10 billion EUR is to be expected in the years 2021–2027. Similarly, at least around 7 billion EUR is estimated to co-finance part of the development costs of the defence industry in 2021–2027 (currently the budget for 2017–2020 is 90 million EUR for defence research and 500 million EUR for defence industry development). In case of increased funding for the Erasmus + programme, expenses of around 90 billion EUR are to be expected from 2021–2027 (current funding is approximately 14.7 billion EUR). Increasing the EU support for the European data, connectivity and digital literacy infrastructure would involve the necessity to assign approximately 70 billion EUR in the period 2021–2027 (current funding is approx. 35 billion EUR). However in terms of boosting competitiveness through scientific research and innovation, it is planned to double the available resources by 2040, from the current 80 billion EUR to 160 billion EUR. In December 2017, the Committee presented the way in which the euro area and the EU as a whole could be strengthened due to the use of the EU budget, at present and in the future. Four specific functions were presented: supporting structural reforms on the national level, facilitating the convergence of Member States on their way to joining the euro area, ensuring a protective mechanism for the banking union and developing a stabilisation mechanism through merging of a variety of funds and instruments on the EU and euro area level. This would be supposed to help in maintaining investment levels in case of a serious asymmetric shock. However, these functions require a change in attitude exceeding the limitations of the present EU budget. It is estimated that assistance after 2020 will amount to at least 25 billion EUR over the period of seven years. In terms of implementing the cohesion policy, the decision whether to continue the aforementioned approach or to limit the support for less developed regions and countries, will be key. If it was decided that the European Regional Development Fund and European Social Fund support for more developed regions and transition regions is to be terminated, it would mean that resources would be diminished by approx. 95 billion EUR in the entire period. However, if a decision was made to further limit the aid, only to countries covered by cohesion policy, it would necessitate the investment into less developed regions of France, Italy and Spain to be discontinued. This in turn would lead to diminishing the allocated resources by 124 billion EUR over the

---

22 Inaugurated in June 2017.
entire period. Applying the same assumptions to scenarios No. 2 and 3, support for economic, social and territorial challenges would have to be taken over by national, regional and local authorities, following the principle of subsidiarity.23

In fact, all political priorities, beginning with the European Defence Union, support for young people’s mobility, supporting digital transformation of Europe, stimulating research and innovation, and closing with activities to facilitate the establishment of real economic and monetary union, will require appropriate funding in order for them to acquire some realistic shape. The Committee is considering possible ways to modernise the EU budget, including through stronger ties between the objectives of the EU budget and the methods of funding it. It is also considering the possibility of making the financing from the EU budget more strongly dependent on respect for fundamental EU values, which is often described as “conditionality”.24

The United Kingdom’s exit from the EU is going to result in losing an important contributor, contributing to the funding of EU policies and programmes. Practically it will bring around the necessity to analyse which areas might be the ones to make savings on and implement the assumed priorities more effectively. Assuming that due to the process of exiting the EU, the United Kingdom is going to stop making its contribution to the EU budget, and membership fees for the years 2021–2027 will not be increased, a deficit of 94 billion EUR will arise in the common budget, while new priorities constitute an additional expense of at least 100 billion EUR. This is why the final decisions regarding the areas in which expenditure will be frozen or diminished are key. The deficit of resources could be covered by, among others, freezing the expenditure on common agricultural policy and cohesion policy. However, such a decision would mean decreasing such expenses in real terms. Another way of financing the aforementioned areas may be to raise the required contribution for all EU Member States or to introduce new sources of financing.25

Analysts from the Bruegel think tank emphasize that the discussion on the new budget cannot be limited to the aspect of balancing income and expenditure, it should however mostly concern long-term effects on the common market. Currently, the net recipients of the EU budget in-

clude the countries of Eastern and Southern Europe. This fact should not, however, be interpreted as a loss for taxpayers in the countries which are contributors to the budget, but as a specific type of contribution to the unification of the European market, the development of which constitutes a common interest for all Europeans.26

When taking decisions so important from the point of view of the future development of the EU, readiness to openly consider the resources necessary to translate the new priorities into measurable results will be required. The decision as to the shape of the EU budget will be a decision regarding the direction of the future development of Europe. It will also be an important test of the EU’s unity and its ability to act in a changing world.

Conclusion

Due to the role and function of the budget, the structure of the EU budget income will constantly evolve. It cannot be assumed that once established sources of financing the EU budget will be so forever, as the EU, as an international organisation, functions within certain political, economic and social conditions. Its functioning is determined by numerous factors, subject to changes over time. It is natural that the structure of income and expenditure of the EU budget will undergo corrections depending on arising needs of the Member States, as well as global challenges. These factors and challenges will also shape the discussion on the shape of the EU budget in the future. Indirectly, they will also bear a lot of importance for the Member States, as considering new sources of financing the EU budget will be dependent on the condition of the public finances of each Member State. A feedback loop is formed, as on the one hand Member States make contributions to the common budget and on the other, countries may use the resources from that budget for the benefit of their own economic growth. This connection highlights the importance of the decisions impacting the future directions of Europe’s development and its financing.

References


Ibidem.


Núñez Ferrer J. et al., *Study on the Potential and Limitations of Reforming the Financing of the EU Budget*, Expertise commissioned by the European Commission on behalf of the High Level Group on Own Resources under service contract No 14/PO/04, 3.062016.

The President of the Munich Ifo Institut and Professor of the University of Munich in the article “Reform of the European Union budget: small changes can lead to significant improvement” (ifo Schnelldienst 6/2017).