This volume has tried to capture the various dynamics in the new politics of the EU budget. The institutional modifications of the Lisbon Treaty have introduced the most comprehensive reform of the budget system since the “budget treaties” of the 1970s. Political events have transformed the political context of EU budget politics: challenges for new policies but also pressure to dismiss old policies to respond to new needs, the necessity of more financial resources but also a growing hostility in a large part of European public opinion and, last but not least, the consequences of the UK referendum on the British exit from the European Union.

The various chapters in this edited volume have offered a contribution to better understanding of the new politics of the EU budget and its contribution to European integration. This final chapter highlighting the challenges which the new EU budget politics have to face in the near future does not have the ambition to offer tailor-made solutions but to focus on some of the main challenges which will be on the agenda in the near future.

The challenges ahead

The contributions in this volume touch many of the themes of relevance to the future of EU budget politics and policy: the impact of Brexit on the EU budget (Brunsden/Robinson 2016) and the EU reform to better respond to the worries of public opinion and the financing of policies to relaunch the EU. The financial and economic crisis, the management of the migration flux, security of the EU external borders, the stability of neighbouring countries, relations with Russia, commercial relations with the United States, the energy issue, and the reduction of emissions to limit climate change are only some examples of the transnational challenges that Europe has to face. Nationalistic and populist tendencies are gaining ground in many EU countries, offering the illusion of national solutions.

At the same time, European leaders have difficulties in showing a new vision of European integration. Solutions to the challenges based on business as usual are not perceived by public opinion as adequate for the current challenges. The outcome of the British referendum renders maintain-
ing the status quo even more unacceptable. To respond to disaffection with European ideals, political leaders have to offer to European public opinion a new vision, a political courage and supplementary financial resources.

The aim of this volume is not to offer solutions to the big challenges, but to analyse the contribution that the EU budget could make to some of the problems on the table. EU own resources are, for instance, one of the crucial topics which could contribute to supporting new strategies and policies to face the challenges, and also to give European citizens a perception of what Europe can do. A better use of EU funds more focused on results can be a second pillar to re-launch European integration and face the new challenges. Enhanced monitoring and scrutiny of European Policies by the EU institutions is the third element, which would allow a better assessment of EU policies.

The Brexit impact on the EU budget

The first challenge EU leaders have to handle with care is the UK’s exit from the EU. It will be a very complex operation, which could also be a motor stimulating further reform of the EU. The official narrative, so far, tells us that there will be no impact of the UK for the next two years after the triggering of Art. 50 of the Treaty on the Functioning of the European Union (TFEU). This is formally true, but the reality seems to be more complex and it would be wise for EU Leaders to acknowledge some key principles involving the British government as soon as possible.

An issue to be clarified is whether the commitments made by the EU (at 28) will be honoured, in terms of dissociated payments, a few years after the legal commitment and after the formal exit. Respect for commitments is a self-evident principle, which should be respected by all the Member States. The United Kingdom should remain bound to honour past and future commitments made until its formal exit from the EU. This principle has a particular relevance for all new EU (dissociated) expenditure in favour of UK beneficiaries and also for the UK staff of the institutions recruited between 1973 and 2018, in particular for the cost of their pensions, to which the UK government should contribute. The Commission might be tempted to freeze all new long-term expenditure in favour of UK beneficiaries in the absence of a clear commitment by the UK government on this issue.
This is probably only one of the problems to be settled in negotiations. In any case, the EU budget will lose the UK contribution (House of Commons 2016). The UK contributes about ten percent of the Member State financing of the EU budget (about ten billion euro) and it is a net contributor by about 4.9 billion (in 2014, European Commission 2016). This gap, *rebus sic stantibus*, should be filled by the other MS unless the 27 decide to downgrade the EU contribution for some policies, which should imply the agreement of the 27 MS. Even in this case, the situation could be complicated by the likely UK participation in some EU policies (e.g. Common Foreign and Security Policy, environment policies, etc.) through the European Economic Area or through other special arrangements, which could be negotiated by then.

On the own resources side, Brexit should, in principle, affect all correction mechanisms, with relief especially for the countries financing the double rebates. The current own resources system will become fairer as it will be financed purely by Gross National Income (GNI) contributions. The absence of the UK might also stimulate the creation of EU taxation to replace the current system of financing, opening a supplementary window of opportunity for the recommendations by the Monti group.

Multiannual financial planning has always been the place for negotiating reform towards a budget that is less redistributive and more oriented to investments. The UK has always been in the lead in this battle (Blair 2005), with some (modest) success. The absence of the UK leader at the European Council risks reducing the impact of the forces aiming to reform the budget, unless EU Leaders find other motivations for the reform.

The reform of own resources

Traditionally, the own resources issue came to the attention of public opinion and EU institutions in periods of crisis when the ceiling was reached and more resources were necessary. This time is different. The EP has raised the problem of the replacement of own resources with *more transparent, simple, fair and democratically accountable ways to finance the EU*, independently of the size of the budget.

The High Level Group on Own Resources (HLGOR) is entering its final phase, a very comprehensive study commissioned by the HLGOR has been published (Núñez Ferrer et al. 2016) and a meeting with national parliaments is scheduled for 7-8 September 2016 in order to finalise the final report to be presented to the European Council by the end of 2016. The fi-
nal report will arrive on the table of the institutions in a moment when the need to develop new European policies might require more resources. The problem of the quality and quantity of the own resources cannot be disassociated from the needs and the policies to be developed.

Academic literature offers many suggestions for new EU taxes\(^1\) together with the assessment criteria to evaluate the sustainability of each individual tax. The first report by the HLGOR identified the weaknesses of the current system to be redressed: lack of simplicity, of transparency, of fairness and of democratic accountability. In addition to a deep analysis of the problems, the study commissioned by the group offers many ideas and potential solutions which could inspire not only the HLGOR but also the EU leaders. The study presents a well-documented analysis of the pro and cons of various options for political decisions.

The story of European own resources is marked by a limited number of events often linked to a crisis. The Treaty of Rome abandoned the idea of the Coal and Steel Community (ECSC) of a supranational body with full fiscal autonomy. The problem of the financing of the European Community (EC) was on the table in the mid-60s when the Commission proposed a package of proposals which included the own resources, the financing of the agricultural policy and reinforcement of the competences of the European Parliament (EP). This proposal led to the empty chair crisis, and modifications only came in the margins of the 1970 Treaty with a decision, as there was no agreement to modify Art. 201 EC (Council decision 70/243/ECSC, EEC, Euratom). Agriculture levies and common custom duties were topped up in 1975 with a third resource, a portion (one percent) of value added tax (VAT).

1984 and 1988 are two other key dates, the first one for allowing the UK to have a substantial discount on its contribution (about 66 percent of its “normal” share) and the second for increasing the revenue of the EC with the introduction of the so-called fourth resource, a percentage of the Gross National Product (GNP). With these resources the Member States were back in the driving seat of the own resources. The fourth resource amounted to ten percent of the total revenue in 1988 and it was over 72 percent in 2016. The idea of autonomous resources was abandoned. The period until 2013 was marked by adjustments and rebates of the rebates – all measures which made the system less transparent and more unfair.

In spite of many criticisms, the mechanism has guaranteed stability and sufficiency of resources to finance EU activities. It also guarantees fairness among Member States as the richer States pay more than the poorer.
The debate around the introduction of new taxes is complicated by the fact that it should be framed in the perimeter of the current Treaty, as a reform of the Treaty for a new EU fiscal capacity is probably desirable but difficult to conceive in the short (medium) term.

Abundant academic literature, including proposals by the Commission, offers a number of potential tax candidates to replace at least part of the current sources (Schratzenstaller 2013; European Commission 2011a). A consensus is emerging on the criteria for assessing the validity of a tax in the medium/long term, i.e. visibility and simplicity, financial autonomy, a contribution towards an efficient allocation of economic resources, yield, and cost efficiency with regard to tax administration, revenue stability and equitable gross burden. Most of the taxes suggested fulfil all the criteria but the perfect tax does not exist. The first assessment report by the HLGOR concludes that reform of the EU mechanism “should be based on the merging of national interests with a higher European interest” (HLGOR 2014).

Some consider that the current VAT tax is one of the causes of the complexity and the lack of transparency of the current system and they consider that it should be replaced with new taxes. Others see that VAT could guarantee the financing of the whole EU budget (similarly to an EU federal system, see Cipriani 2014).

Since 1998 the Commission has advanced various proposals for European taxes which still have some validity, such as:

- Emission Trade system;
- Financial Transaction Tax;
- Financial activity tax;
- Air transport tax;
- EU VAT;
- EU energy tax;
- EU Corporate income tax.

Two other proposals are worth mentioning: a tax on the digital economy and a tax on European Central Bank (ECB) gains (droit de seignorage). Tarschys (2015) sees the digital economy, like other multinational activities, as particularly agile at escaping traditional sources of taxation and often being beyond the reach of Member State fiscal authority, especially considering that the digital economy has no solid territorial link – who knows exactly where the revenues from downloaded apps go? A European tax would be more efficient than national attempts to tap these companies.
The EU “is strong enough to confront the powerful actors that are experienced masters of evasive fiscal manoeuvres” (Tarschys 2015, p. 7).

The second proposal is a tax on ECB profits, which are about 25 billion euro per year (Lamassoure 2007; Haug et al. 2011). According to a study by Willem Buiter at Citigroup and Huw Pill of Goldman Sachs, “the present value of all of the future income which the ECB can earn from investments financed by seigniorage is in the region of €2,000-3,000bn” (Davies 2011; Soros 2012). If these figures were confirmed, the ECB could contribute not only to the financing of the EU budget but also be more active in supporting the governance of the euro.

In the panorama of options for reform, we need to also mention the minimalistic, but also realistic, approach of other authors who support the idea that it is not necessary to reform the system and that a supplement to revenue can easily derive from more efficiency in management, the revision of policies, and eventually the extension of co-financing to some of the current policies, such as agriculture expenditure (Heinemann 2016).

A reform of own resources is important not only to replace the current obsolete mechanism, to abandon the “juste retour” approach, but also to open potential avenues to supplementary financial means for the EU.

Reform of EU own resources should not be a revolution, and it is unthinkable that the EU will reach full fiscal autonomy independently of the Member States. EU taxes should top up the GNI contribution, which, in my view, should be maintained. This will leave a double protection for the Member States.

A realistic reform should be conducted within the current Treaty with a revision of the own resources decision. Many reasonable proposals are on the table, but none of them are perfect. My modest conclusion would be to include as many potential taxes in the revision of the own resources decision and leave the decision to the normal community method: during the annual procedure take a decision according to the rules set by the Treaty.

To conclude, reform of the EU own resources cannot be totally untied from the expenditure side of the budget and its efficiency, which will be the subject of the next section.

A budget focused on results

In times of economic crisis and instability, there is an increased need for the mobilization of public funds to stimulate growth, but at the same time there is scarcity of resources. This situation stimulates the search for more
efficiency and effectiveness, and ultimately a better use of resources in terms of concentration of funds and focusing on results. Because of its size, the EU budget has a limited macro-economic impact, but its leverage effect and its capacity to mobilize resources through co-financing are important and can make a difference.

The Multiannual Financial Framework (MFF) 2014-2020, in spite of the global reduction of resources, has continued this (slow) evolution rebalancing between redistribution and investments. Agriculture was reduced by more than 13 percent with respect to the previous period, Cohesion policy was reduced by about eight percent, while the heading Competitiveness for growth and jobs, which includes research and innovation, education and training, trans-European networks in energy, transport and telecommunications, social policy, and development of enterprises, etc., has been increased by more than 35 percent. This trend was already initiated in 2007-2013 with respect to the previous programming period.

Until recently, the targets of the Commission in implementing European policies were double: spending the allocation and complying with the various rules established in the financial and legislative regulations. Even the European Court of Auditors (ECA) and the Parliament until recently were particularly focused on respect for these two elements.

The Treaty of Lisbon (Art. 318) reinforces the relevance of the efficiency and effectiveness of the policies financed by the budget. The Commission now has to submit an annual Report on the “evaluation of the Union’s finances based on the results achieved” (European Commission 2015). The ECA has drawn the attention of the institutions to the necessity of enhancing the assessment of the quality of the expenditure since 2010.

The renewal of all legislation with a financial impact for the period 2014-2020 has allowed the introduction into the “spending” regulations of a number of performance objectives, indicators and macro-economic conditionality, together with evaluation and reporting arrangements. In particular, in the case of structural funds there is the possibility to draw supplementary funds from a “performance reserve”. According to the Commission, 56 programme statements in the 2014-2020 legislative package have about 300 objectives and 700 indicators, either general or specific, almost half of the programmes have more than 10 objectives, some have more than 20 and a few more than 40. Are these too many for effective control? The Commission has to report on legality, regularity and compliance with the indicators in the Annual Activity Reports and in the report ex art 318 TFEU (see, for example, European Commission 2015), but more relevance is given to “the value resulting from an EU intervention which is
additional to the value that would have been otherwise created by Member State action alone” (European Commission 2011b, p. 2), which can be assessed on the basis of three criteria: effectiveness, efficiency and synergy.

The complex EU decision-making process in the preparation, decision, implementation and control of the EU budget involves many actors. A change of culture can only be achieved if there is collective ownership of the new approach more focused on outputs than inputs. The Commission, under the leadership of the responsible Commissioner Kristalina Georgieva, has taken the initiative to lead this profound change of culture by involving all the stakeholders involved in the budgetary process, starting with the staff of the Commission, EU institutions and the Member States. The organization deployed by the Commission to implement this new approach looks solid and structured and could open the way for a profound change in the financial and legislative activities of the EU, as important as the Delors reform of 1988.

Performance budgeting is the method which takes into consideration the relation between inputs and the outputs and services achieved to measure the efficiency of public spending. Performance budgeting implies a choice of shared indicators to measure the outputs and outcomes of a programme, taking into account the external factors and the time lapse which might influence the results. It also implies more flexibility and autonomy in the management of programmes. The EU Financial Regulation should therefore be adapted. Experience shows that high investment, especially in administration but also at the political level, is necessary to implement a performance budgeting method.

Measuring the output of implemented legislation could be a treacherous exercise: either it is left to technocrats, with the risk of transforming the budgetary exercise into a “perfect algorithm”, or the decision defining the metrics is given to the legislator, with the risk of achieving good compromises but not viable indicators. Using the performance budgeting model to establish the EU budget could expose it to risks and reduce the political impact of the budget.

The evolution toward a performance budgeting approach is a necessary step to make EU disbursements more effective and visible to the citizens in terms of European added value. A generalised implementation of performance indicators should measure the effectiveness of European decisions and be a component of future budgetary decisions.
The scrutiny of budget implementation

Enhancement of the measurement of outputs in the allocation of resources in the annual procedure should reinforce the role of control and budgetary authority. Scrutiny of legislation should not be a sole prerogative of the budget committees of the EP and of the Council but should involve the legislative committees in both institutions. The leading role in this scrutiny procedure should be left to the legislative and budgetary authority with the active support of the ECA. A new interinstitutional agreement (IIA) could frame the monitoring of legislation and its link with the annual budgetary and discharge procedure and the allocation of funds. In fact, scrutiny should not be an exercise in itself but should produce political decisions on the allocation of resources.

The need to have legislation which can bring European added value and which should be implemented to achieve its targets should be shared by all the institutions, which should be ready to adapt their working methods. Performance budgeting should not become a technocratic exercise but a tool which can influence the allocation of resources and reinforce the European dimension of legislation. This cultural change can only be achieved if all the actors, EU institutions and also Member States, agree to put in place this new evaluation procedure.

The mid-term review of a five-year multiannual framework could become the moment to assess results after two/three years of monitoring and to take concrete decisions in terms of the financial envelopes of programmes translating positive and negative priorities also based on concrete outputs and performances. It is important that the decisions in this new monitoring system are not taken annually but at a precise moment. Apart from exceptional cases, annual decisions on the performance of programmes can be disruptive for their implementation. Annually, the discharge and budgetary authority may issue recommendations to draw attention to eventual poor performance of some policy areas.

Finally, this new approach should put an end to the pre-allocation of funds to specific Member States. That projects should be financed on their own pure merits and not as part of a national envelope is a model to be generalised, following the mechanism successfully put in place for the European Fund for Strategic Investments (EFSI).

To conclude, driving the EU budget into a performance budgeting method is an ambitious but necessary objective which can only be reached if the main stakeholders feel ownership of the project and they are ready to sustain the change of culture. A new IIA could remodel the cooperation of
all the institutions to achieve a shared decision. The Commission has the opportunity to lead a fundamental reform and put the budget at the centre again, as the motor of European integration.

Final remarks

This overview tells the story, necessarily incomplete, of the contribution of the EU budget to the construction of European integration. Over this period, the EU budget has been the crossroads of institutional dialogue and struggles between two visions of European construction: the community and the intergovernmental method. I will conclude with some remarks on the research questions raised at the beginning of this chapter.

The EU budget, in spite of conflicts, has guaranteed the financing of policies which have favoured the integration process, but at the same time the budget has slowed down this process because of scarcity of resources and the difficulty for the institutions to reform the budget for a better use of financial resources. The identification of negative priorities or obsolete policies has been an objective that (all) the institutions have failed to achieve. New policies have been financed, generally, through redeployment, or more rarely with supplementary funds. The Council has generally been successful in imposing redeployment but in most cases the EP has managed to limit the redeployments. However, especially in recent times both arms of the budgetary authority have shared the political priorities of the new policies put in place.

Increases in resources and inter-institutional balance have been the major drivers of the evolution of the budgetary procedure while, up to now, structural reform of the budget has only been marginal.

As the various contributions to this volume show, the budgetary domain has certainly been one of the most dynamic sectors in the European process. The rise over time in the influence of the EP has obliged the other institutions, but in particular the Council, to change their attitude: Parliament was no more a procedural step to be fulfilled but became a partner with whom it is necessary to dialogue. The EP also changed its attitude: from conflict to cooperation. The conflicts since 1988 have developed new interinstitutional relations, as the evolution of the IIAs show, but they have never put the adoption of the budget in danger. The financial provisions of the Lisbon Treaty reinforce the position of the institution aiming at a lower budget. In consequence, the EP – traditionally more inclined to increase
expenditure – has less influence over final decisions and it has a reduced negotiating power.

Europe today faces major challenges – the economic crises and the governance of the euro, the migration flux and neighbouring relations, the security of its own territory and protection of the external border – at a moment when public opinion shows a clear disaffection and disillusion with the European project. European leaders, and a part of public opinion, know that the major challenges cannot be overcome individually by each single country but only with a strong European position and a will to reform. The step forward will pass, once again, through budgetary decisions.

Supplementary resources will be necessary and alternative ways of financing must be identified. The legislative and budgetary scrutiny of the legislation adopted is the area where more dynamism is necessary. The EP could develop a new role of scrutinising the budgetary implementation of EU legislation if this exercise could be linked to budgetary decisions (increasing or reducing allocations as a function of performance). The initiative of the Commission for budgetary results is certainly a step in this direction.

The fact that own resources and efficiency of EU spending are both high on the agendas of the budgetary circles of all the institutions proves that, even in this deep European crisis, the budget is doing everything possible to ignite the motor of European construction. Looking back at the history of the last forty years is encouraging, even if the direction and vision of the Europe of the future generation can only be set by our European leaders.

Notes

1 Extensive references can be found in De Feo and Laffan (2016).
2 A first conference was organised in September 2015 and a follow-up conference is foreseen for September 2016. A group of EU institution experts and Member states has been established together with a dedicated website: (http://ec.europa.eu/budget/budget4results/index_en.cfm).

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