CENTRO STUDI SUL FEDERALISMO

comments
no. 102 – 28 February 2017

THE MONTI REPORT ON FINANCING THE EU BUDGET

*Alberto Majocchi **

The Final Report of the High Level Group on Own Resources, presented last 17 January, contains significant innovations concerning the current financing system of the budget. The most significant innovation was stressed by the Chairman of the Group Mario Monti in an interview with the Italian newspaper *Il Sole 24 Ore*: "in a context of redistributive budget like the current one, it is unavoidable that the judgement is based on the '*juste retour*' principle. On the contrary, if the target, as we believe, should become the production of goods and services at the European level that our citizens expect in fields such as security and immigration, then it is necessary to endow the Union with the capacity to provide these services". Consequently, the proposal of possible own resources presented in the Report is linked to a policy area and is evaluated according to a series of criteria, but underlining that "own resources should not only be used to finance the EU budget in a sufficient, stable and fair manner. They should also be designed to support EU policies in key areas of EU competence: strengthening the Single Market, environmental protection and climate action, energy union, and reducing the fiscal heterogeneity in the Single Market".

The Group recognises that the EU does not have the power to levy taxes. This falls exclusively within the competence of Member States. Then, the Union's own resources can be defined as revenue allocated irrevocably to the Union to finance its budget and accruing to it automatically without the need for any subsequent decision by the national authorities since the attribution of any particular source of revenue results from a decision-making process that requires both unanimity in the Council and ratification by all Member States. The Group's approach, linking own resources to the provision of European public goods and the support of European policies, is in any case strictly consistent with the text of Article 311 TFEU stating that "the Union shall provide itself with the means necessary *to attain its objectives and carry through its policies*. Without prejudice to other revenue, the budget shall be financed wholly from own resources".

The starting point of the approach adopted by the Group is somehow limited but realistic. An increase in the size of the budget is not explicitly foreseen, since it is currently determined by the own resource ceiling and, on the expenditure side, by the Multiannual Financial Framework (MFF). However, according to the Report, in the future the EU budget should focus on areas bringing the highest 'European added value', such as security of external borders or defence, or on European public goods for which action at EU level is unavoidable or where national financing possibilities are insufficient for achieving European goals. The introduction of new own resources does not aim to increase the fiscal burden, but to reduce the GNI-based national contributions. Furthermore, while the current system of own resources is mostly focused on providing stability and sufficiency of revenue, and equity between Member States, if equity is estimated at the level of citizens, the present system of 'national contributions' appears, in the Group's opinion, as regressive since Member States with a lower GNI per capita do not contribute a lower share of 'national contributions' expressed as a percentage of their GNI (a proposal for "*Progressivity in Financing EU Budget*" has been put forward in a recent Policy Paper of this Centre).

The Monti Group deems that a good reform of the EU own resource system could result from a combination of new resources stemming from production, consumption and environmental policies, putting forward the best options for establishing a link with EU objectives and value added. The Group's key proposals concern:

a) Improving the functioning of the Single Market and fiscal coordination: a reformed VAT, a corporate income tax, a financial transaction tax or other financial activities' tax;

b) Promoting the Energy Union/environment/transport policies: the CO_2 levy, inclusion of the European Emission Trading System proceeds, an electricity tax, a motor fuel levy (taxes on fossil fuels/excise duties), or indirect taxation on imported goods produced in third countries with high emissions and no carbon pricing.

As the recent crises have revealed, the MFF fails to accommodate the budgetary needs arising from the new responsibilities facing the Union, such as the Juncker Plan, migration policy, security policy, follow-up of the COP21 and the climate change negotiations. Therefore, the EU is under strong pressure to intervene in areas other than its traditional core business. The results of the Group's analysis provide consistent ideas for supporting these new revenue needs, implicitly assuming that parallel reductions are guaranteed in traditional expenditures since no increase in the size of the budget is foreseen. However, bearing in mind the idea underlying the activity of the Group, i.e. that new own resources could be adopted to finance the EU budget only if they support the production of new public goods at the European level, the results presented in the Report could be the basis not only for substituting the GNI-based national contributions, but also for financing a future increase in the size of the budget to provide these public goods.

In conclusion, the Report does not contain any suggestions about the possibility of a larger budget for the Union, since this was not the task of the Group. However, additional resources should be allocated to the EU budget if the political will emerges in the Union to implement new policies to face effectively the challenges of the EU in the new world situation, after Brexit, Trump's election in the US and the following push towards a strengthening of the European capability in the defence sector, the unmanageable problem of migrants, the urgency to ensure external and internal security, the need to address the poverty issue and to promote technological innovation to compete effectively in a globalised market. The ideas put forward in the Monti Report could thus appear as useful tools to provide the needed financial support for the new policies.

At this point, the reform of the budget should go hand-in-hand with an institutional reform through a renewed Treaty that provides for the possibility of implementing truly European taxes through a political process involving the Council deciding by a majority rule and the European Parliament, as well as the creation of a European Finance Minister, democratically controlled by both the Council and the Parliament, in charge of the management of the EU fiscal affairs. However, all this was outside the mandate of the Group. It is clearly up to the political and social forces the moral commitment to fight for achieving the goal of a European budget able to cope with the needs resulting from the new challenges facing the European Union.

* *Emeritus Professor at the University of Pavia and Vice President of the Centre for Studies on Federalism*