

# What budget for the EU? Principles, spending priorities and the impact of Brexit

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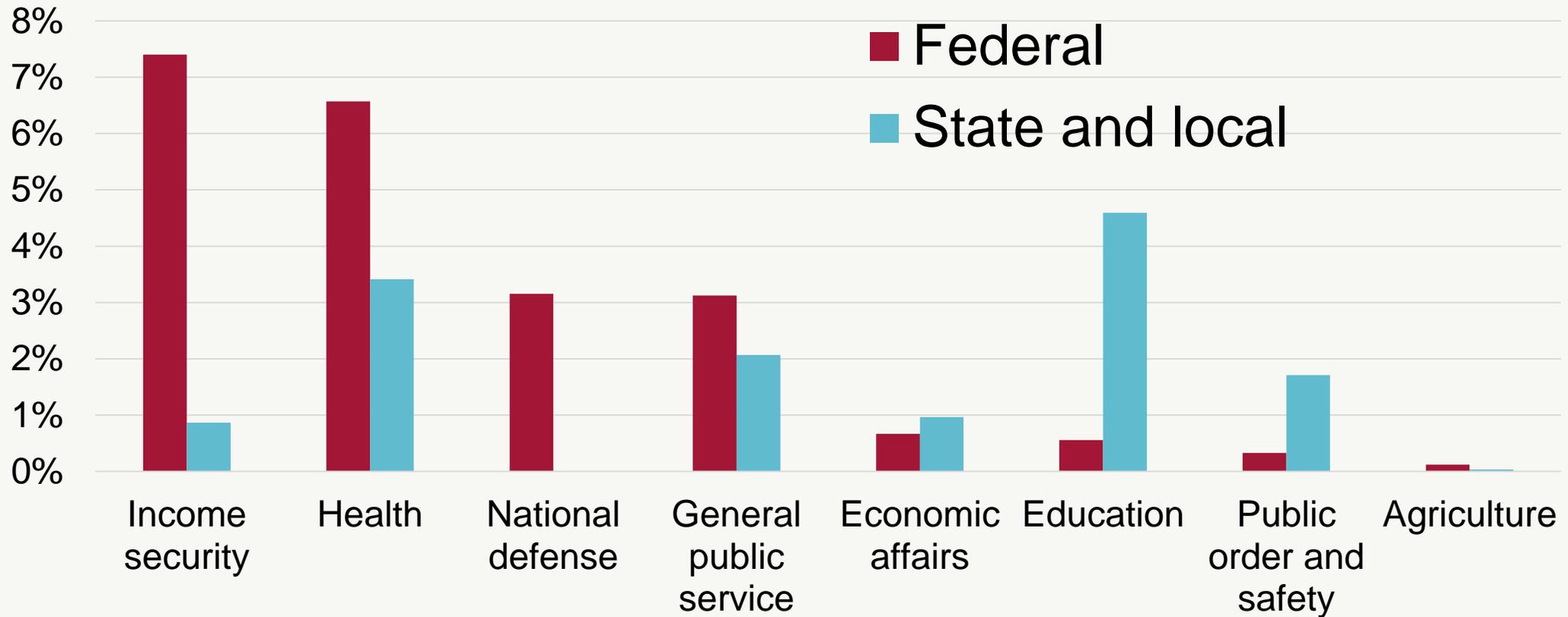
*Thanks to Yana Myachenkova, Nicolas Moës and David Pichler for excellent research assistance.*

9 March 2018, Sofia

# Outline

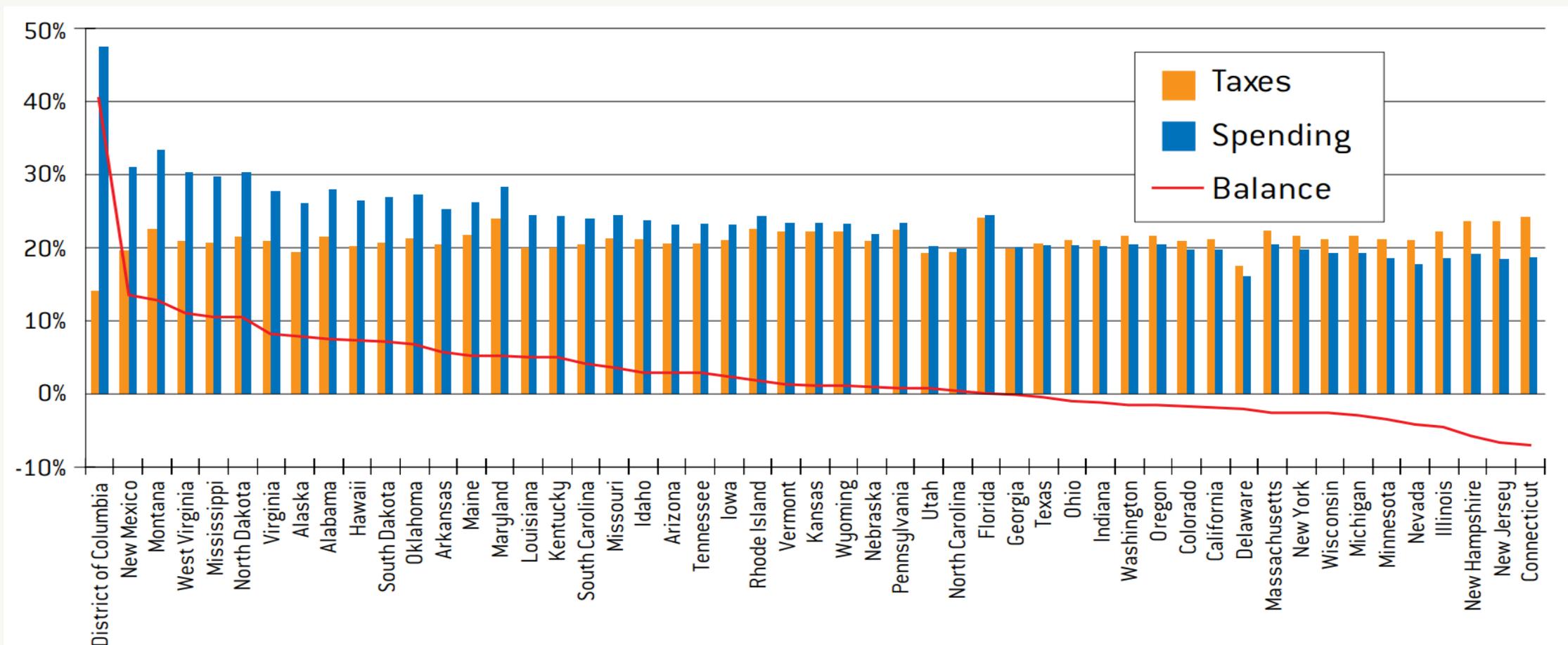
1. Lessons from the United States
2. The current EU budget:
  - Structure
  - Effectiveness of agricultural and cohesion policies
3. The new MFF
  - Fundamental rethink of EU spending
  - Impact of Brexit

# US Budget Structure, 2016, % GDP



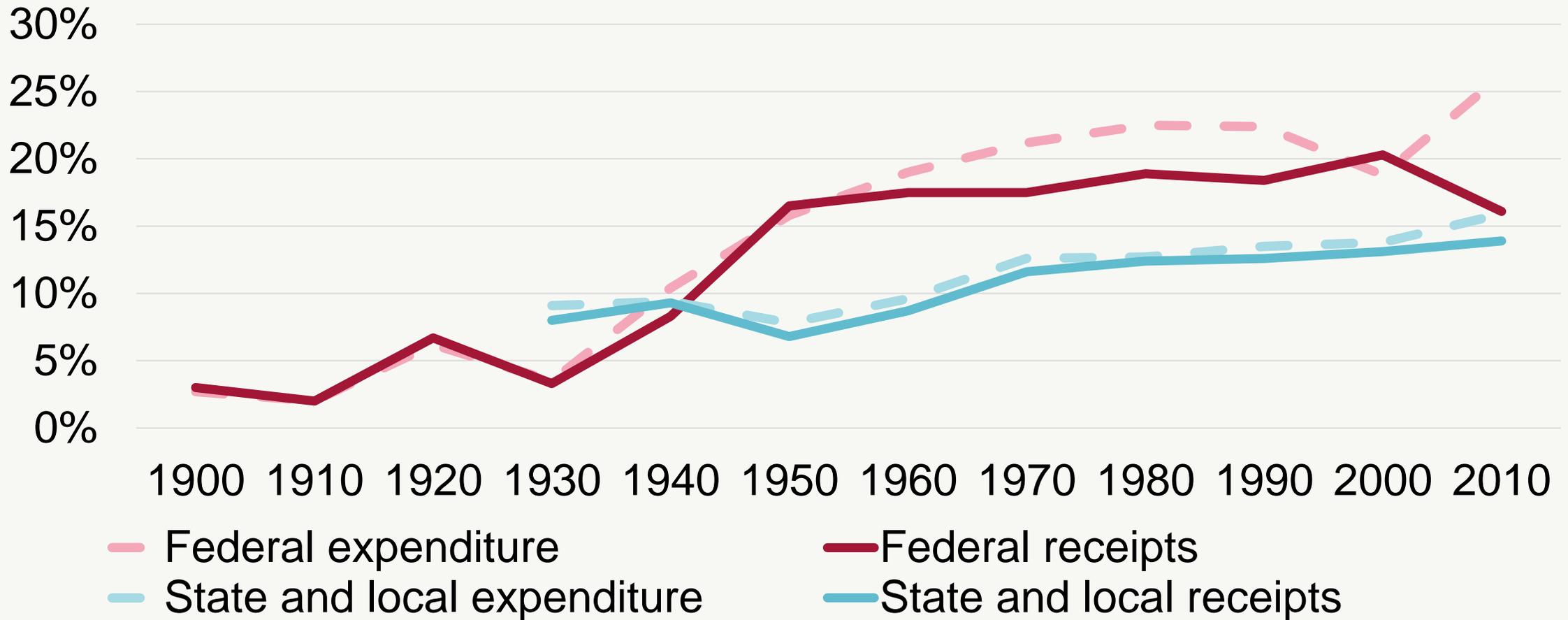
Source: Bureau of Economic Analysis

# US federal budget: taxes from, spending in, and balance with states, 1999, % state GDP



Source: Figure 2 of Darvas (2010), which is based on data from <http://www.hks.harvard.edu/taubmancenter/publications/fisc/> (fiscal data) and OECD regional database (GDP).

# US federal and state/local government expenditure, % of GDP



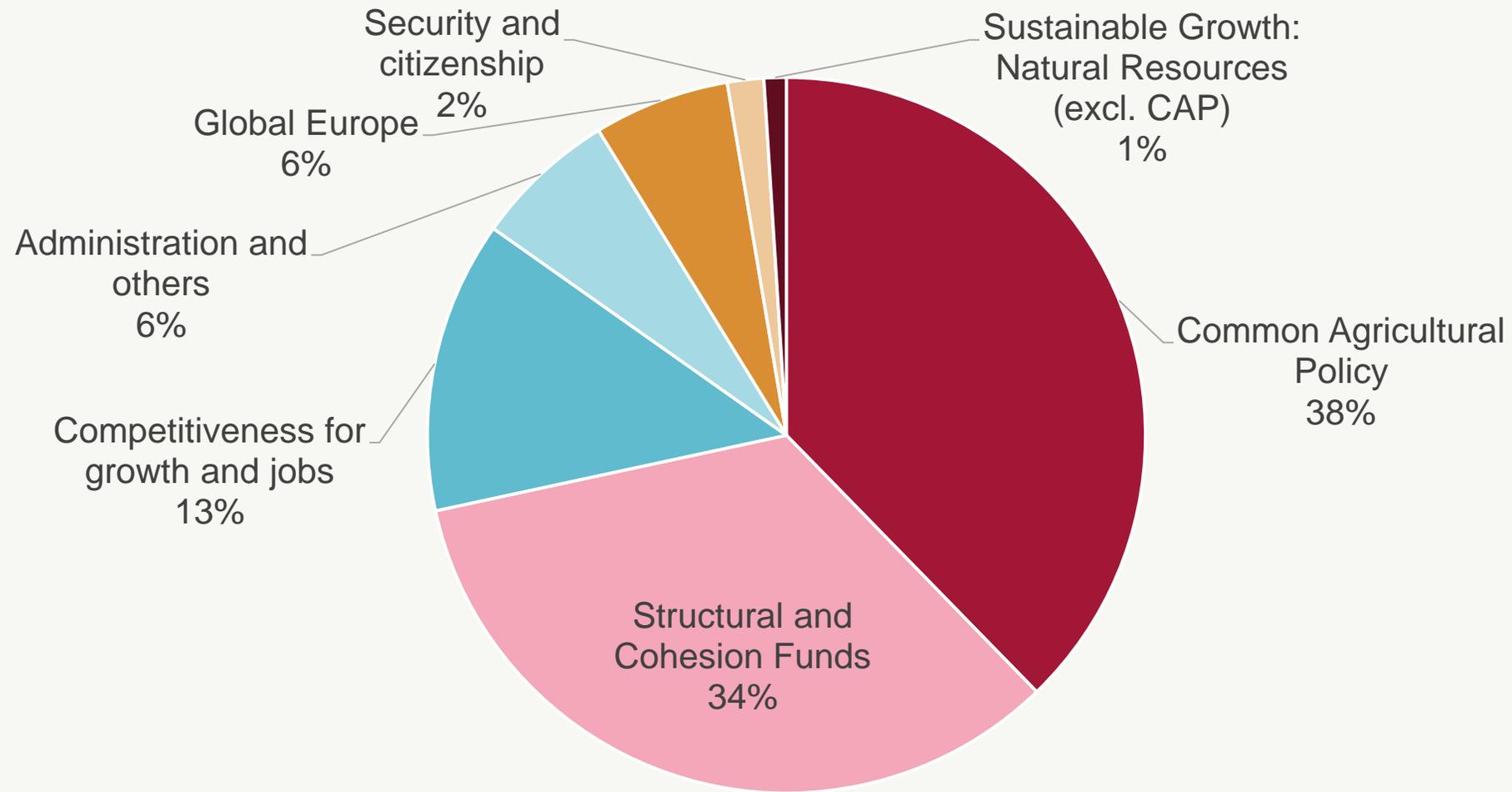
*Note: Some expenditures and receipts, notably federal grants-in-aid, are counted in both the federal and S&L series. The NIPA accounts net them out in the series for the total government sector. Source: Schuyler (2014)*

# Lessons from US

- Federal spending did not develop at the expense of state spending but rather grew in 20<sup>th</sup> century as government took on new functions
- EU is union of well developed nation states, it is not a state nor federation. Essential government functions are difficult to move.
- Instead, EU budget plays supporting role to national functions. Even when talking of new priorities, the key is the interplay with national policies. What is the value added of the EU budget?
- Fiscal stabilisation function is national. Re-insurance models can be considered for EA as part of EU budget.

# The current EU budget

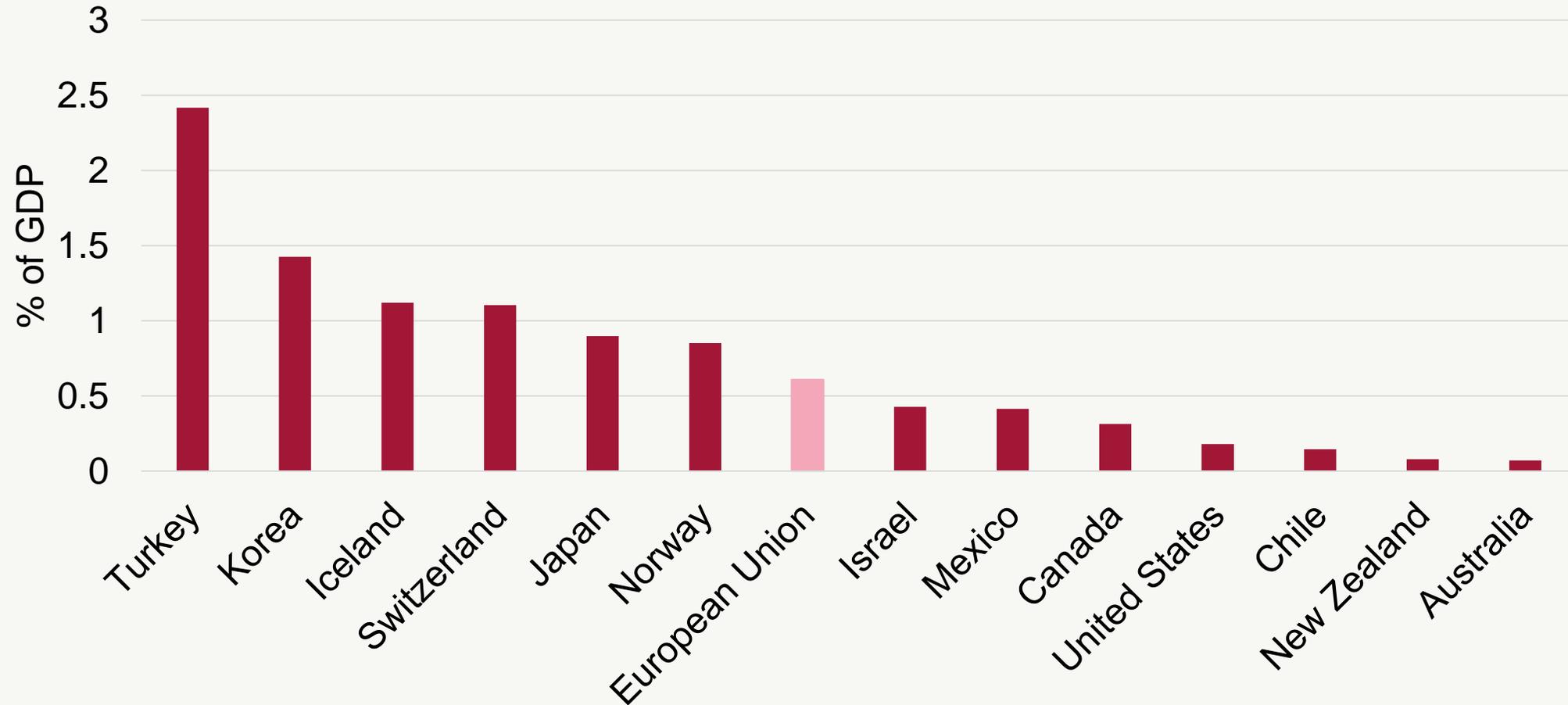
## The distribution of the 2014-2020 MFF ceilings



Source:  
European  
Commission,  
Bruegel.

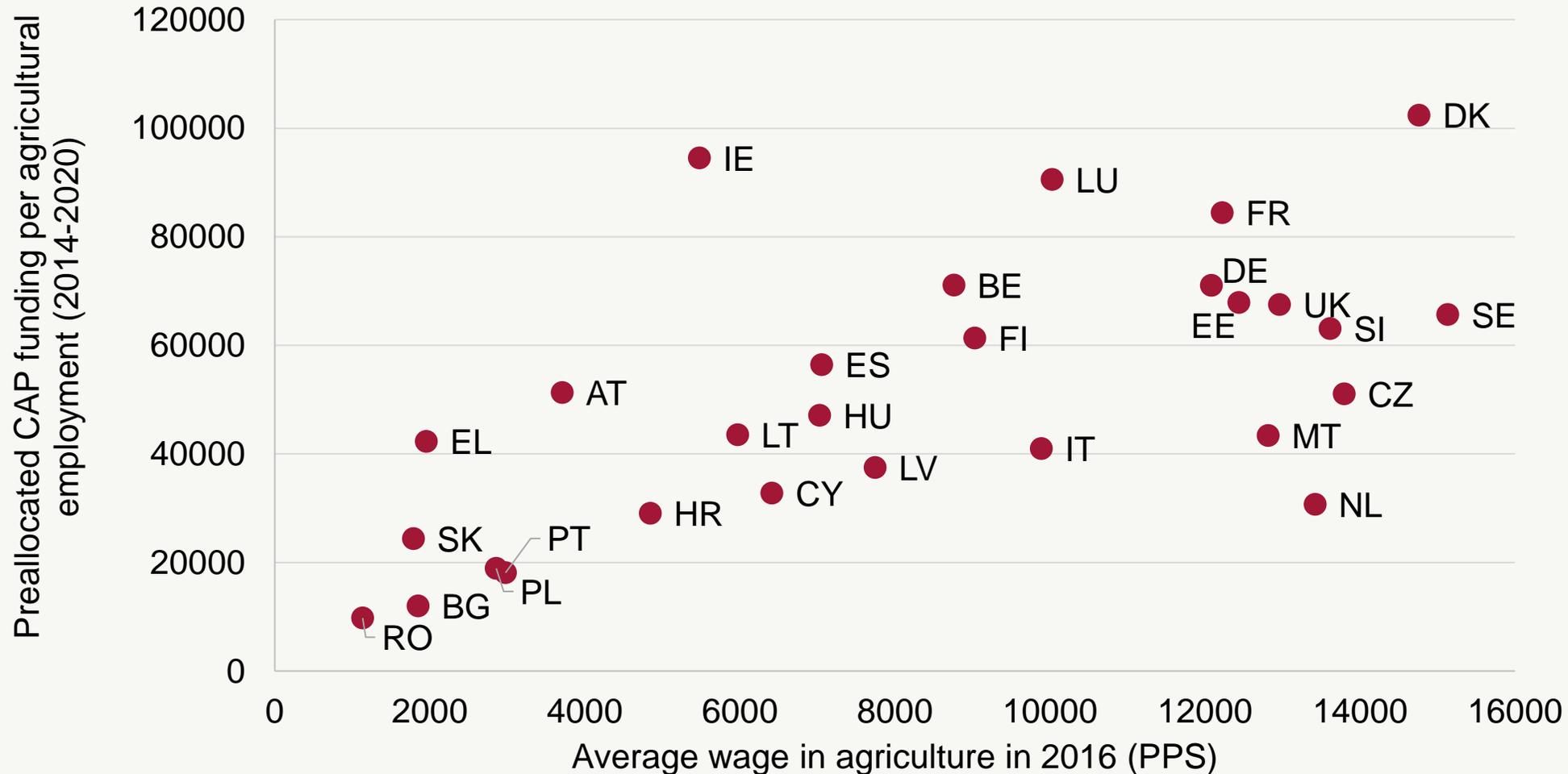
# The Common Agriculture Policy (CAP)

Net support to agricultural producers OECD economies, 2016, % of GDP



Source: OECD Agricultural Policies database.

# Relation between CAP funding and wages in agriculture



Source: Bruegel calculation using Eurostat data

# CAP should change

- CAP is basically an income support scheme for farmers. But even there unequal: 80% of spending goes to happy 20% of farmers.
- Overall EU spending is thus highly concentrated in a very small group of people.
- There is no reason why that should be done through CAP. If social problem, use national social programmes and ESF
- CAP has not achieved its goals in terms of “greening”, biodiversity, see European Court of Auditor’s report.
- Scope for national co-finance on income support?
- Fundamental rethink is necessary

# EU budget discussions

- Empirical assessments of cohesion policy is mixed, some efficiency gains and re-orientations are in order.
- Right to strengthen public goods such as border control, immigration policy, defence cooperation, climate policy and research
- Especially on border and immigration, the larger numbers presented by EC look politically desirable. E.g. 20-25bn for Frontex etc.
- Possible euro-area stabilisation policy: key is national counter-cyclical policy, better coordination and perhaps a fiscal capacity. Reforming the EU budget is an important step to achieve some form of fiscal capacity.
- But anything put into “rainy day fund” or flexible euro area budget line limits available funds for regular programmes. Flexibility comes with a cost!

# Modelling MFF post Brexit

- If no UK contribution to next MFF and no EU spending in the UK, while spending in EU27 and revenues from EU27 grow with GNI: financing gap of €93 billion in 2021-2027
- If CAP and cohesion spending is fixed nominally at current 2014-2020 MFF level, while everything else increases with GNI: €102 billion surplus available for spending on other priorities
- Yet UK might contribute to the next MFF due to:
  1. "EU exit fee" (around €20 billion in net terms in 2021-2027)
  2. Contribution for some form of access to EU markets, like Norway?

# Modelling the next MFF after Brexit with frozen CAP and cohesion spending

## ***(A) The current 2014-2020 MFF (28 Member States)***

	Payment ceilings*	Revenues	
CAP	387	Total own resources	978
Cohesion	348	Other revenues	48
Other spending	291		
<b>Total</b>	<b>1,026</b>	<b>Total</b>	<b>1,026</b>
		<b>Balance</b>	<b>0</b>
Total % GNI	1.0	Total % GNI	1.0

*Note: \* payment ceiling is available only for the total. We approximated sub-heading payment ceilings using the ratio between sub-heading and total commitment ceilings.*

# Modelling the next MFF after Brexit with frozen CAP and cohesion spending

***(B) The 2014-2020 MFF for 27 Member States excluding the UK from both revenues and spending***

	Payment ceilings*	Revenues	
CAP	362	Total own resources	856
Cohesion	336	Other revenues	43
Other spending	275		
<b>Total</b>	<b>973</b>	<b>Total</b>	<b>900</b>
		<b>Balance</b>	<b>-73</b>
Total % GNI	1.1	Total % GNI	1.0

*Note: \* payment ceiling is available only for the total. We approximated sub-heading payment ceilings using the ratio between sub-heading and total commitment ceilings.*

# Modelling the next MFF after Brexit with frozen CAP and cohesion spending

***(C) 2021-2027 MFF for 27 countries, no contribution by the UK and no spending in the UK)***

Payment ceilings		Revenues	
CAP	362	Total own resources	1,097
Cohesion	336	Other revenues	55
Other spending	352		
<b>Total</b>	<b>1,050</b>	<b>Total</b>	<b>1,152</b>
		<b>Balance</b>	<b>102</b>
Total % GNI	0.9	Total % GNI	1.0

# Our estimate for the UK's net contribution to the EU budget after 2020 from the financial settlement of EU membership (€ billions)

	2021-27	Post-2027
<b>Net UK contribution (if non-rebate adjusted share)</b>	28	8
<b>Net UK contribution (if rebate adjusted share)</b>	17	6

*Source: Authors' calculations using the methodology of Darvas, Efstathiou and Gonçalves Raposo (2017).*

# Possible UK contribution to the 2021-2027 EU budget for some form of access to EU markets

	Historical contributions		Total UK net contribution in 2021-2027 if its GNI share as in the first data column (€ billion)
	% GNP	€ per capita	
Iceland	-0.05%	-25	-11
Switzerland	0.02%	12	3
Liechtenstein	0.03%	40	7
Norway	0.16%	115	31
Italy	0.26%	71	51
United Kingdom	0.33%	111	64
France	0.34%	110	67
Netherlands	0.38%	149	74
Germany	0.42%	149	82

*Note: historical data is the average of 2010-2016 for EU countries and average of 2014-15 for the four non-EU countries.*

# Conclusions

- Two variables to adjust: spending and revenues
- Sensible to reduce *share* of CAP & cohesion in total spending and increase spending on “new” priorities significantly, especially migration, research, climate and defence
- Worthwhile to consider increase in revenue from 1% GNI to higher but this will be a huge political fight.
- Could the EU finally take a step to agree on an EU tax on CO<sub>2</sub> emissions? Treaty does allow it. Would be sensible climate policy and interesting source of revenue...