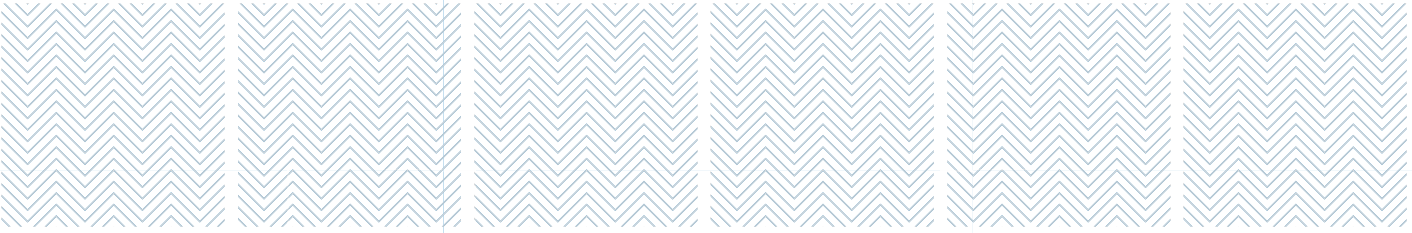




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EU Own Resources:

Momentum for a

Reform ?



Edited by:  
ALFREDO DE FEO  
BRIGID LAFFAN



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# EU OWN RESOURCES: MOMENTUM FOR A REFORM ?

**Edited by:**

ALFREDO DE FEO

BRIGID LAFFAN

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# REPRESENTATION WITHOUT TAXATION: AN ASSOCIATION OR UNION OF STATES?<sup>1</sup>



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<sup>1</sup> The article is based on the introductory talk on “Resources for Which Union?”, given to the session on “Do We Need a Reform?” at the “Workshop on Own Resources of the European Union”, organized by the Robert Schuman Centre for Advanced Studies, European University Institute, Fiesole (Florence), 24 April 2015.

## ABSTRACT

The debate on the EU budget and its reform should not be prisoner to (only) technical arguments. The formation, composition and use of the budget are not only politically salient questions, but they imply also an idea of what the EU is and should be. If financing of EU activities is based on the principle of the fiscal sovereignty of its Member States, this principle does not seem to fit the need of the Eurozone to use autonomous resources for anti-cyclical purposes. This article argues that the principle of national fiscal sovereignty is compatible with the EU as an association of states, while it is not compatible with a Eurozone operating as a union of states. A differentiated strategy for the reform of the system of own resources of the EU should thus be adopted.

**Key words:** EU own resources, fiscal sovereignty, euro budget, association of states, union of states.

## INTRODUCTION

The European Union (EU) is a political system based on the principle of representation without taxation. Since the 1957 Treaty of Rome, the EU has been institutionalized around a double principle of representation: representing the member states as political entities in the Council of Ministers (then only the Council); and representing the European citizens in the European Parliament (EP). This double principle of representation was celebrated by the 2009 Lisbon Treaty, according to which the approval of a European law (regulation or directive) by both the Council and the EP constitutes the ordinary legislative procedure of the Union. Although the regulatory powers and policy competences of the EU have increased dramatically, the EU system of own resources to support these powers and responsibilities has not changed accordingly. The budget of the EU is strictly constrained in statutory terms (around 1.23 percent of the total Gross Domestic Product (GDP) of the EU Member States), comes mainly

from national transfers (around 85 per cent of the total budget), is regulated by automatic criteria (in order to prevent negotiation between Member States), and the composition of its expenditure is fixed and in any case negotiated between national governments. The EU budget is dependent on mathematical rather than political criteria. The EU has been prevented from raising autonomous taxes, while its policy responsibilities have dramatically increased. Although the definition of the budget is the business of the national governments coordinating within the EU intergovernmental institutions (the Council and European Council), its management also involves the supranational institutions of the Commission and the EP. But not across the board.

Indeed, the Commission and the EP contribute to the use of the budget for the regulatory policies of the single market, but they are marginal (the EP) or instrumental (the Commission) in the policy-making of those areas of EU activities traditionally close to core state powers (Genschell and Jachtenfuchs 2014), such as foreign and defence policies, home affairs, employment and welfare policies and – crucial to the argument of this article – the economic policy side of the Eurozone (or Economic and Monetary Union, or EMU). The EU emerging from the dramatic transformations induced first by the end of the Cold War and then by the existential crisis of the euro collapse is no longer a unitary organization, encompassing Member States moving towards the same end but at different speeds as it has been generally assumed (Piris 2012). In particular, the separation of the legal bases and material interests between the Eurozone and non-Eurozone Member States has transformed the EU into a crossroads of multiple unions (Fabbrini S. 2015a). Within the EU, there is a union interpreted as an economic community – an exclusive commercial regime or an association of states set up through treaties aiming to create a common and then a single market. As an association of states, it is dependent on the principle of national fiscal sovereignty, a principle that makes the nation states become Member

States the indisputable principals of the Union. At the same time, however, the institutionalization of the EU, and in particular the adoption of a single currency managed within a specific governance regime (the Economic and Monetary Union or EMU), has created the necessity of a more genuine economic and monetary union within the EU (Van Rompuy *et al.* 2012). The depth of integration pursued by the Eurozone during the euro crisis, in particular through intergovernmental treaties external to the 2009 Lisbon Treaty, has radically called into question the very idea of an association of states. In particular, the Eurozone is a union of states, although its institutional structure and policy competence divisions have evidenced a lack of effectiveness and legitimacy.

It is against this differentiated institutional background that the debate on the reform of the EU system of own resources should take place. The level, the source and the composition of the budget are not only the result of the path-dependent logic institutionalized along the course of the integration process. The EU budget is much more than an accounting document. It is a realm of political confrontation between rival views of the EU, both as an organization and a project. For those national governments favouring or supporting the perspective of the EU as an economic community (like the United Kingdom, Denmark, Sweden and eastern European Member States such as Hungary, the Czech Republic, Slovakia, Romania and Bulgaria), the current features of the system of own resources must be preserved, given that it reflects the idea of the EU as an association of states, whose Member States should maintain control of its functioning (and thus of its financing). At the same time, the political development of the EU has gone so far that it can no longer be considered an economic community. The EU has indeed acquired features of a domestic federal system, in particular in the Eurozone, moving from the regulatory competences of the single market to policy responsibilities in sensitive new areas of activity. This is why supranational institutions like the EP



and the Commission, and also the Member States of a Eurozone that has performed unsatisfactorily, claim the necessity of reforming the system of own resources, and in particular call into question the principle of national fiscal sovereignty through the creation of a fiscal capacity for the Eurozone, even if that requires a change to the treaties. For these institutional actors and Member States, the Eurozone will either evolve towards a democratic union of states or will risk a political implosion.

In short, the debate on the EU budget and its reform should not be prisoner to (only) technical arguments. The formation, composition and use of the budget are not only highly politically salient questions, but they imply an idea of what the EU is and should be. Here, I will proceed as follows: first, I will critically describe the current system of EU own resources; second, I will discuss the various proposals for reform, basing my discussion on the work initiated by the High Level Group on Own Resources (HLGOR) chaired by Mario Monti. Finally, in the Conclusion, I will bring home my main argument.

## THE EU SYSTEM OF OWN RESOURCES

The EU budget is formally constituted by a system of own resources. The concept of own resources implies that EU revenues should not be dependent on discretionary decisions of the Member States. However, this is not the case. I will first consider the revenue side and then the expenditure side of the EU system of own resources, with the aim of showing its dependence on Member State governments (Cipriani 2014; Iozzo, Micossi and Salvemini 2008).

Starting with the revenue side, there are three types of own resources: (1) traditional own resources (TOR), deriving from customs duties and agricultural levies; (2) VAT-based resources, consisting in contributions by the Member States calculated on the basis of a hypothetical value added tax base, which is then corrected in variously ways; and (3) GNI-based (Gross National Income) resources, which are the crucial source for

balancing the budget. If one considers the trend over the last fifteen years (Fuest, Heinemann and Ungerer 2015), it emerges that the GNI resources have increased dramatically, whereas the TOR and the VAT resources have either decreased or only slightly increased.

On the expenditure side, the EU budget has mainly been used to support agricultural subsidies (40 per cent), despite the agricultural sector having become marginal in the economic structure of the main Member States, and regional and structural policies (around 40 per cent), considered necessary offsetting measures for those economically underdeveloped sub-national regions that would be penalized by the deepening of the single market. The remaining fifth of the budget is used to support the regulatory policies (like the competition policy) and the daily operation of the EU administration.

On both the revenue and expenditure sides, the EU budget exhibits controversial features. Regarding the revenue side, it has become growingly dependent on GNI contributions – that is, national transfers – currently representing around 85 per cent of the total EU budget. At the same time, the GNI contributions are not exactly proportional to the real national income of each Member State because of a complex mathematical calculation and the need to take into consideration specific national rebates (as in the case of the UK). This has created a quite unfair system of distribution of financial weight between Member States.

In proportional terms, in 2013 the main contributors were such Member States as Belgium, Luxembourg and Malta. As for the four largest and richest Member States, the UK contributed much less than Italy, France and Germany. Calculating the net balance for each Member State – i.e. the difference between the expenditure allocated to the Member State and its national contribution – the outcome is not surprising.

The poorer member states get more than they give and the richer member states give more than they get. But (again) the UK has a significantly smaller

net margin than the other three larger countries.

Regarding the revenue side, it seems evident that the EU does not spend much on policies generating European public goods – i.e. policies generating trans-national benefits – but rather on policies tailored for specific Member States or sub-national regions. In particular, it seems unjustifiable to spend a large share of the budget on the agriculture sector (a traditional French request), given its declining importance in economic and social terms (even in France). Certainly, agriculture is an activity with cultural implications, inasmuch as it also connotes the values of healthy nutrition and preservation of the landscape. And of course, farmers were historically the backbone of anti-modernizing, if not authoritarian, forces, and thus deserve a specific consideration to reduce their fear or anxiety in relation to economic progress and technological innovation. However, this preoccupation has been dispelled by the post-war economic development of the Western European countries. At the same time, it is true that cohesion and regional policies have been successful in compensating the potential losers from the single market, operating as a sort of territorial welfare state (Leonardi 2005). However, the institutionalization of these policies has led to a pork-barrel logic in the distribution of funds, with the consequence that financial support has also been allocated to regions within richer Member States that do not need it (as in the famous case of the funds transferred to the German lander of Brandenburg to build drinking water reservoirs – plausibly a trade-off with France for the funds transferred to the agricultural sector).

Thus, on both the revenue and expenditure sides the EU budget is defined and controlled by the Member State governments. They negotiate to define the national transfers to Brussels and to get their share of expenditure from those transfers, although the negotiations are kept within strict limits because of the fear of opening a Pandora's box. The institutional decision-making system has been tailored to protect the primacy of

the Member State governments. Consider the Multiannual Financial Framework (MFF), which structures the EU system of own resources and from which the annual budgets are derived. The first draft of the MFF is informally defined by the Member States in the European Council, and formally by the Council. Although the MFF requires subsequent approval by the EP, the first draft pre-constitutes the margins for manoeuvre of the latter. Moreover, the MFF has a seven-year lifespan, thus bypassing the five-year mandate of the EP. Even symbolically, the lifespan of the MFF shows the secondary role of the EP in budgetary policy. The interstate negotiations concerning the MFF delimit the size of the annual budget, which in its turn is distributed to various pre-established programmes. The reliance on pre-established programmes for spending the EU budget further constrains the possibility of the EP using it for new policies or to introduce anti-cyclical measures. This explains why the EU budget finances more redistributive policies with national implications than trans-national policies aimed at generating Europe-wide goods. Although the definition of the MFF is constrained by pre-established numerical criteria, when, however, divisions emerge they reflect inter-state rather than partisan cleavages.

The EU system of own resources has been the object of recurrent criticism. On the revenue side, it is true that its automaticity protects the budget from a Member State requesting to renegotiate it in order to reduce its contribution. It is also true that this automaticity hides the political responsibility in the definition of the budget, making the entire process opaque and technical. The calculation of VAT-based resources is an example of such opaqueness. The VAT system differs significantly from one Member State to another, with unfair implications regarding their contributions to the total budget. The UK rebate, being calculated on the British VAT pool, makes the system nearly unintelligible.

On the expenditure side, no EU institution seems accountable for the use of the own resources.



To be sure, for those policies decided with the Community method (because of its monopoly of legislative initiative, the Commission submits a legislative proposal to the Council, which votes by qualified majority or unanimity, and to the EP, which votes by absolute majority, with the possibility of a conciliation process in the case of divergences between the two legislative institutions (Dehousse 2011)) citizens can reconstruct the responsibility of the various institutional actors. However, also for those policies where the co-decisional procedure is applied, the two legislative chambers operate within the limits of the resources previously allocated to a given programme. It is true that in the single market area many of the policies have a regulatory character (Majone 2014), thus implying limited costs. However, at the end of the day the citizens are prevented from understanding the entire budgetary process. They do not know the financial contribution of their country to the EU (no percentage for an EU tax appears when they pay VAT on purchases in their country), they cannot affect the size of the pre-established distribution of the own resources through their vote for the EP, and they cannot know who should be considered responsible for policy outcomes. This seems inevitable in a dual decision-making budgetary regime: it is mainly intergovernmental on the revenue side (the MFF is decided by the Council after consultation with the EP and then approved for the part concerning the national contribution by the parliament of each Member State), but also supranational on the expenditure side (but only where a co-decisional procedure is applied, as in the single market policies). Nevertheless, on the expenditure side the EP and the Commission have to operate within financial limits defined by the Member State governments.

In short, the budgetary system of the EU has five basic features. First, it is a *derivative* system. It is called a system of own resources, but in fact it is a system of Member State resource transfer. It is a system which gives each Member State the incentive to calculate the presumed trade-off

between financial transfers to the EU and funds received from the EU (the net balance). Second, it is a *rigid* system. In order to prevent the re-opening of negotiations between Member States, the result of which would be unpredictable, automatic rules have been introduced to calculate the national contributions on the basis of VAT-based and GNI quantitative criteria. This rigidity is protected by the unanimous vote required for any change. Third, it is a *restricted* system. Given the nation-based structure of the budget, the condition of the national economy and the level of fiscal burdens in the Member States will inevitably affect their willingness to contribute to the EU budget. Any proposal to increase the budget has regularly met insurmountable hurdles. Fourth, it is a *limited* system. The EU budget does not envisage any significant resource for anti-cyclical purposes, which would be crucial in times of crisis. Fifth, it is a *nation-based* system. The EU budgetary system respects the principle of exclusive national fiscal sovereignty. It is not tailored according to EU policies, but according to national interests and priorities.

## PERSPECTIVES ON REFORM OF THE EU BUDGET

In the context of the discussion on the MFF for the period 2014-2020, a High Level Group on Own Resources (HLGOR), chaired by previous Italian Prime Minister Mario Monti, has been established “with the purpose of continuing the reflection and providing new input to this sensitive and difficult issue when it comes to reforming it”. The HLGOR had a basic choice to make at the very start of its work: to devise a reform within the existing treaties or to call for a systemic overhaul of the current system, implying a change in the treaties. The HLGOR has chosen the former option, although it has acknowledged the plausibility of the latter one (“the discontent with the system has created a new dynamic which may lead to change in a medium-term perspective, if the political

conditions permit”, HLGOR: 7). The HLGOR has adopted a realistic and pragmatic approach, recognizing that the system has fundamentally worked in supporting the operation of the EU. Its report positively evaluates the current GNI-based national transfer balancing system because it guarantees the “stability and sufficiency of resource flows” (HLGOR: 12). At the same time, it criticizes the process of national rebates and the calculation of statistical VAT-based resources because it is unfair (66 per cent of the UK’s net balance is reimbursed) and non-transparent. The report also recognizes that reliance on national resources might generate undesirable outcomes in times of crisis. Given the constraints of the Stability and Growth Pact (SGP), in difficult times reliance on national transfers might incentivise delayed payments to the EU, jeopardizing the viability of established programmes.

On these bases, the report advances proposals to identify specific resources that the EU may obtain independently of the Member States (e.g. from financial transactions), to change the VAT-based resource calculation, and to experiment with a limited EU debt to use anti-cyclically. More generally, the HLGOR proposals aim to constrain narrow national self-interests and to limit political transaction costs in Member State negotiations. In a context where powerful pressures for the repatriation and renegotiation of EU policy competences are active, the HLGOR stresses the functionality of the current system. As it acknowledges, “budgetary discipline is currently ensured by several fundamental features of the EU financing system: the ceiling (which is the absolute limit), the fact that the EU budget must be in balance (no debt), and the existence of a Multiannual Financial Framework which defines maximum expenditure in the mid-term. As with democratic accountability, budgetary discipline stems from the EU’s overall institutional architecture and the provisions of the Treaty” (HLGOR: 31). The HLGOR approach aims to

rationalize the current system of own resources. As discussed in the scholarly literature (Bordignon and Scabrosetti 2015), several measures might be adopted to make the system more transparent or less intergovernmental. One might consider a reform of the VAT tax rate on national VAT receipts in order to single out the percentage to be transferred to the EU level. Citizens would finally know their direct contribution to the EU budget and become (at least this is the expectation) more attentive to what the EU does with their money. However, it seems implausible to tame the nation-based logic of the system of own resources without critically discussing the principle of fiscal sovereignty of the Member States. This principle constitutes the bulwark of the fiscal idea of the EU as an association of states, an association where representation without taxation is acceptable as long as national parliaments control national financial transfers to the EU. The HLGOR does not call that principle into question, but favours reform within the existing treaty constraints.

Other proposals to reform the EU system of own resources have been advanced. The HLGOR duly recognizes that the EP, the Commission, and even the Court of Auditors have raised vociferous criticism of the current system. These institutions have criticized it as being too complex and non-transparent, in particular with regard of the calculation of the VAT-based resources and the rebate on the UK contribution. Moreover, reliance on national contributions has fostered regular tensions between Member States. There have regularly been delayed payments to the EU from a few Member States, in particular in periods of economic difficulty. The same SGP has further increased the constraining pressure on the use of national budgetary resources. Finally, the system has been criticized because of the rules regulating the decision-making system adopted to manage the budgetary process. Unanimity of the 28 Member States is required to introduce even the smallest change in the structure of the EU budget.

Although they have stressed these limits of the EU system of own resources, the Commission and the EP have refrained from asking for a revision of the treaties.

In the EP and Commission proposals there is no clarity regarding the logic that should inform the reform strategy. As Bordignon and Scabrosetti (2015: 9) argue, reform of the EU system of own resources depends “on the view about the nature of the EU: a true federation, with a sovereignty of its own which transcends that of the Member States; or just a club of sovereign states which join forces in providing some common goods (...) The answer is not obvious”. It has not been obvious because of the contradictory EU institutional features. This is epitomized by the existence of different unions within the EU, in particular the union of the single market and the union of the single currency (Fabbrini S. 2015a). These two unions are governed by different decision-making logics, although in both unions the popular legislature (the EP) is deprived of taxing powers and even of the power to propose new laws. It is true that the EP plays a co-decisional role in managing the regulatory policies of the single market and only a consultative role in the policies connected to the single currency, where decisions are taken through the voluntary coordination of government leaders and ministers and mainly have a political character (Bickerton, Hodson and Puetter 2015). Nevertheless, in both policy and institutional regimes, the EP operates within the financial constraints defined by the Member State governments. The EU has thus set up an unprecedented system of representation without taxation. This is the exact reverse of the contradictory condition of the American colonies during British rule: they had to pay taxes, but they did not have institutions representing their citizens. If one assumes that the EU is and should remain an organization controlled by national governments, then this lack of taxation power of the EP is justifiable, as it is the Member State-based system of own resources. This might be

rationalized, even reformed, but not modified. A muddling-through strategy might be an effective and expedient way to introduce these changes.

However, if the contradictory features of the EU area were cleared up and the different unions developing within the EU were distinguished, then a different reform strategy might be devised. A preliminary step should consist in recognizing that the operation of the single market can be based on the principle of national fiscal sovereignty while this principle cannot be preserved to organise the operation of the Eurozone. For the latter, it would seem necessary to introduce a disconnection between the EU budget dependent on national transfers and EU policies by identifying independent financial resources usable by the Eurozone institutions (both intergovernmental and supranational). After several years of deep economic crisis, the EU would also need a Fund for Growth to support the Juncker Investment Plan and a Fund for Unemployment Insurance to be managed at the European level. It would probably also need to issue European Bonds for strategic investment, a possibility that was recognized in the European Coal and Steel Community (ECSC), set up in Paris in 1951. Bonds for investment should not be confused with the sharing of national public debts, which is prohibited by the current treaties. In any case, in the Eurozone, budgetary resources should be connected to the zone’s growing policy responsibilities, and not set in advance through negotiations that exclusively express national interests. The Eurozone should thus revise the principle of national fiscal sovereignty because it constrains its systemic need to counteract asymmetrical shocks. This revision would probably imply a change in the treaties, but this change should concern the Eurozone and not the EU as such. At the EU level, in fact, a treaty revision would trigger impassioned resistance from those Member States that interpret the EU as an economic community aiming to optimize transnational economic activities. It does not

seem plausible to solve the contrast of views and interests between Eurozone and non-Eurozone Member States through a new round of opt-outs as was done in the past (think of the opt-outs from the most integrative projects, such as the EMU, Schengen, and specific sub-sets of justice and home policies, granted to EU member states such as the UK, Denmark, Sweden, the Czech Republic and even to a Eurozone Member State such as Ireland).

This is why the reform proposals that have emerged in recent years mainly concern the EMU budgetary framework, also because the euro crisis has hit the Eurozone much more than non-Eurozone Member States. The crisis has dramatically called into question the compromise, settled in Maastricht and then formalized in Lisbon, between a centralized monetary policy, as requested by Germany, and a decentralized economic, fiscal and budgetary policy, as requested by France (Tuori and Tuori 2014). The crisis has shown the weakness of a policy regime organized around centralized control of the single currency and decentralized governance of the policies connected to that single currency. In particular, a need for the Eurozone to have its own budget to use for anti-cyclical purposes has clearly emerged from the crisis (Iara 2015). The very existence of a euro-budget would require an independent Eurozone fiscal capacity, i.e. fiscal resources that are independent of the willingness of the Member States to transfer them to the Eurozone level. As was asserted in the Report of the Four Presidents, submitted to the European Council in December 2012, it is necessary for the Eurozone to establish “a well-defined and limited fiscal capacity to improve the absorption of country-specific economic shocks, through an insurance system set up at the central level” (Van Rompuy *et al.* 2012: 5). This fiscal capacity should necessarily be limited, as Van Rompuy’s report stressed, but not necessarily at the current low level. Indeed, it is worth recalling that the MacDougall Report of

1977 already proposed increasing the EU budget to a level of 2-2.5 per cent of total GDP. What matters is that fiscal capacity should not be constrained to respect a pre-established level agreed in advance if it has to be adopted for anti-cyclical purposes (Bordo, Markiewicz and Jonung 2012). The need for a euro budget was further confirmed by the Five Presidents’ Report, submitted to the European Council in June 2015, as a condition for setting up a fiscal union integrating the monetary union (Juncker *et al.* 2015). A euro budget might be set up by means of various measures decided in a context of enhanced cooperation between the Eurozone Member States, such as a financial transaction tax, a carbon tax, EMU VAT, and taxes on activities made possible by the very existence of the EMU (Fabbrini F. 2014; Maduro 2012).

Setting up a euro budget would inevitably imply a reform of the governance system of the Eurozone. Genuine own resources accruing to the Eurozone would require a democratization of the decision-making process on the use of those resources. Although several models might be devised, from a democratic theory point of view all of them should imply a strengthening of the decision-making power of the EP, transforming it into a congressional institution (according to the checks-and-balances model of separation of powers) (Fabbrini S. 2015b). It is worth recalling that the current governance system of the Eurozone has marginalized the EP, instead favouring the monitoring role of national parliaments. This has meant that some national parliaments (those of the Member States with creditor status) have turned out to be much more relevant than other national parliaments (those with debtor status). For instance, the green light for the third aid package for Greece in August 2015 came from the German *Bundesrat* and not from the EP. Inter-parliamentarism, like inter-governmentalism, favours the larger creditor member states, in particular in a crisis situation (Fabbrini S. 2013), institutionalizing a hierarchical relation between



states that conflicts with the principle of equality of states (which underlay the founding of the EU (Fabbrini F. 2013)). Direct financial transfers might likely generate divisions between Member States (Rant and Mrak 2010). Indeed this was dramatically shown by the Greek crisis in summer 2015, when the possibility of a Grexit was raised by the main creditor Member state (Germany) jeopardizing the viability of the monetary union

In sum, a reform of the budgetary system of the EU might be the occasion for distinguishing between the Member States supporting the fiscal idea of the EU as an association of states and the Member States, mainly belonging to the Eurozone, in need of creating an effective democratic union of states. As a union of states, the Eurozone would need to have its own genuine resources through which to manage its policy responsibilities, thus connecting taxation power with popular representation. A democratic union of states is incompatible with both representation without taxation and taxation without representation.

## CONCLUSION

Discussion of reform of the EU own resources system has a political rather than a technical character. If the EU is considered to be an association of states, notwithstanding the supranational features acquired during its development, then the current system of financially supporting its activities through national transfers is understandable, and with it the principle of fiscal sovereignty of its Member States. On the contrary, if the EU is considered to be a union of states with federal features, then the current system should be reformed, moving in the direction of dual fiscal sovereignty: the sovereignty of each Member State and the sovereignty of the Union. However, the EU is a mixed regime, or rather it is based on a dual constitution (Fabbrini S. 2015a) encompassing different institutional logics and reflecting different systemic needs, in particular

with regard to the single market on the one hand and the single currency on the other. If the EU is a framework within which several unions coexist, as argued in this article, then reform of the own resources system should follow a differentiated strategy. That is, it seems plausible to maintain the current system of indirect financial support for the activities connected to the policies of the single market (although rationalized), and at the same time to build a fiscal capacity (although limited) to support the activities connected to the governance of the single currency. To adopt a reform approach towards the EU as a whole would inevitably lead to a stalemate. Thus, if the principle of national fiscal sovereignty is preserved for the countries participating in the single market, in the Eurozone fiscal sovereignty should be shared between its Member States and the Eurozone institutions, although obviously the fiscal capacity of the Eurozone should necessarily be limited.

At the same time, setting up Eurozone taxes would trigger a rationalization, if not a down-sizing, of the national taxes of the Member States of the area (Weiss 2013). Finally, if the principle of national fiscal sovereignty is compatible with an EU system of representation without taxation, the principle of dual fiscal sovereignty implies the necessity of connecting taxation and representation at the Eurozone level. In sum, through a differentiated reform of the EU system of own resources it is possible to make a crucial step forward towards a more accountable and effective euro union without straining the operation of the inclusive single market.

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