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**Net financial positions of the EU member states:  
a reform proposal**

Workshop  
The new financial framework of the EU  
Consequences and options for the Common Agricultural Policy  
WIFO 13 July, 2009  
Download: <http://franz.sinabell.wifo.ac.at/forschung.html>

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All member states are equal, but...

<u>Member state A</u>	<u>Member state B</u>
<ul style="list-style-type: none"><li>• 89% of EU average</li><li>• huge regional differences</li><li>• important agriculture</li><li>• supported activities</li></ul>	<ul style="list-style-type: none"><li>• 91% of EU average</li><li>• minor regional differences</li><li>• unimportant agriculture</li><li>• non supported activities</li></ul>

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An evergreen problem

**'just return' attitude:**  
each EU member state's priority for securing the possible best individual net financial position vis-à-vis the community budget over any other consideration

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### Structure of the presentation

- Definition, interpretation and measurement of net financial positions
- The revenue side of the EU budget and the net financial positions
- The expenditure side of the budget and the net financial positions
- A reform proposal

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### Net financial position

Net financial position: how to define, how to measure?  
(more than 30 justified ways of calculation)

Operational budgetary balance as defined by the Commission

- Revenues: without TOR
- Expenditures: without administration expenditures
- Adjusted so that they sum to zero (spending outside the EU)

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Net financial position of various groups of net payer member states in per cent of the GNI, 1997-2006		
Groups of member states		average 1997-2006
<b>Major net payers</b>		
Netherlands		-0.44%
Sweden		-0.37%
Germany		-0.36%
Austria		-0.22%
Average		-0.35%
<b>Minor net payers</b>		
Denmark		-0.05%
France		-0.11%
Finland		-0.04%
Italy		-0.11%
Average		-0.08%
<b>Net payers with high incomes from administrative expenditures</b>		
Belgium		-0.20%
Luxembourg		-0.37%
<b>Net payer with rebate</b>		
UK		-0.12%

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Net financial positions relative to other gains from economic integration

Trade surplus of net payer member states in trade with net beneficiary member states: 6 x EU budget ,deficit' (Austria 19x) in 2006

Repatriated profit from FDI in net beneficiary member states: Austria 3x; Germany 1x EU budget ,deficit' in 2005

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The revenue side of the EU budget

European Commission: solidarity among member states is to practice through the expenditure side >>> MS contributions should be proportional to relative prosperity

- Comparison of MS shares in contribution to the EU budget and the EU GNI
- Comparison of MS shares in contribution to the EU budget and a hypothetical EU tax on the VAT base (motor fuel, corporate income, personal income, etc.) at unified tax rates

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The expenditure side of the budget

Comparison of MS shares in expenditure headings of the EU budget and the EU GNI in 1997, 2003 and 2006

The eternal ,losers': Germany, the UK and the Netherlands

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### A proposal for a radical reform

Main idea:

The way to a lasting solution leads through the acknowledgement that ultimately the 'just return' attitude governs member state behaviour. The reforms should sufficiently satisfy the member state claims concerned.

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### Guiding principles:

- Fair sharing of burdens across member states, citizens and firms;
- Clear and simple rules for the collection of revenues and allocation of expenditures, without exemptions;
- Maximum possible flexibility in the utilization of resources from the EU budget.

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### Two pillars of the proposed new system

- (a) Member state **receipts**: determined by per capita average EU GNI
- (b) Member state **contributions**: determined by per capita average member state GNI
- Differences in net financial positions of individual member states are determined solely by differences in relative prosperity, clearly measurable through the GNI indicator.
- Solidarity of member states would be expressed, contrary to the current situation, on the revenue and not on the expenditure side of the budget.

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### A hypothetical example for 2006

(all euro data at official exchange rate)

1% of EU average per capita GNI = € 245

- 1% of **Finland**'s average per capita GNI = € 320
- 1% of **Latvia**'s average per capita GNI = € 69

*Finland* receives € 245 x No. of inhabitants = € 1,293 mn  
*Finland* contributes € 320 x No. of inhabitants = € 1,687 mn  
Net position of *Finland* >>> € - 394 mn

*Latvia* receives € 245 x No. of inhabitants = € 561 mn  
*Latvia* contributes € 69 x No. of inhabitants = € 157 mn  
Net position of *Latvia* >>> € + 404 mn

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### How should member states contribute to the EU budget?

- The current mixed system
- Major possible options for the future:  
European tax (taxes) or GNI proportional contribution?  
Advantages and disadvantages

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### Revenues of the EU budget

- The contribution from each member state is fixed as a unified rate (e.g.1%) of the member state GNI.
- The contributions in each member state are collected via a splitting up of a pre-fixed share of collected VAT and corporate income tax revenues. Should revenues from both taxes surpass the pre-set sum of the member state contribution, the surplus will be re-channelled to the member state treasury.

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### Expenditures of the EU budget

- Each citizen of the EU 'receives' a certain share (1%) of the average per capita EU GNI each year. Receipts from the EU budget at member state level would amount to 1% of the average per capita EU GNI multiplied by the number of inhabitants in the member state concerned.
- Receipts from the EU budget are to be **exclusively** utilized to finance eligible programmes along various EU policies, and must not finance any other outlays.
- Each member state enjoys maximum flexibility in the allocation of its resources from the EU budget but **exclusively** across eligible targets.

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### Comparison of the net financial positions under the current and the proposed new regime

Estimations for 2013:

- Each net payer MS would come off better than in the current regime
- Most of the net beneficiary member states would come off worse in the new than in the current regime, to different extent
- Even Turkey's accession would not result worse financial position for net payers than it was in 1997
- The message is for the post-2013 period

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### Advantages of the proposed system

- The proposed system is rule-based without the exemptions, rebates and special treatments
- The rules of cross member state redistribution are very simple and transparent
- The net financial position of any member state is independent of its size, population and negotiating leverage; it is determined exclusively by its relative prosperity within the EU and is fully proportional to its economic strength.
- There is no room left for the dreaded 'just return' approach in discussion on budgetary issues
- Increased flexibility in allocation of expenditures ought to result in a higher grade of absorption and improved efficiency
- The net financial position of any member state changes in small foreseeable steps over the years, enabling the governments to plan the utilization of external resources from the EU budget for a long time horizon
- Medium and long-term EU budgetary consequences of future enlargements can be assessed

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