



**European  
Movement  
International**

# Future of Europe A future-proof European Union budget



Budget is a key element in realising policy priorities. The EU budget is therefore a very important element in the European Commission's Future of Europe debate. To become future-proof, the EU budget needs reforms which allow it to function more effectively, overcome the financial horse-trading between Member States, and accommodate the exit of the United Kingdom from the European Union.

With the Future of Europe debate taking centre stage and the negotiations for the next EU27 Multiannual Financial Framework (MFF) about to start, this is the moment to overhaul the EU budget and make it an agent of change for a more fair, safe, sustainable and inclusive EU. The key elements for a future-proof EU budget are:

#### More independence on the revenue side: new own resources

The current EU budget consists of several sources of revenue, of which GNI-based contributions from Member States form the largest share. The weight of Member State contributions has led to a constant debate on net contributors versus net beneficiaries (the 'net-payer debate'), complicated rebate systems, and negatively impacts the way citizens perceive the EU.

**The introduction of new own resources would make the EU budget more independent from Member State contributions.** New own resources could furthermore provide tools to react adequately to economic shocks, provide resources to run EU

programmes in priority areas, and address shortcomings in the setup of the Economic and Monetary Union, for example through the setup of a fiscal capacity or another macro-economic stabilisation function for the euro area.

**New own resources also offer the opportunity to connect the EU's priorities more directly with its financing sources.** Several forms of revenue raising measures are suggested as new own resources, such as a corporate income tax, a financial transaction tax, a carbon tax or other environment-related taxes. While it should be ensured that taxation at the European level does not constitute an additional tax burden, such taxes allow for a clearer connection between expenditure related to the EU's priorities, i.e. counter climate change measures or employment insurance, and the income side of the budget.



Other potential forms of new own resources are the transfer of the yearly profit of the European Central Bank and the common issuance of debt, such as the European safe assets explored in the Commission Reflection Paper on the deepening of the EMU.

As all possible own resources have their own particular drawbacks (for example in terms of sufficiency, stability, or efficiency), a **system could be envisaged that combines several different new own resources** in order to minimise, for example, fluctuation in the influx of own resources.

In general, the European Movement International supports the recommendations of the High-Level Group on Own Resources regarding the principles and options for new own resources<sup>1</sup>. The proposed concepts of European added value and Unity of the budget are important guiding principles for the use and structure of the EU budget.

**Due to the UK's possible exit from the EU changes to the revenue side of the EU budget could be implemented.** Through the end of the UK rebate, Member States' contributions can be further simplified by also abolishing the 'rebates on rebate'. The options to address the so called 'Brexit gap' on the revenue side range from any form of post-Brexit UK payments, an increase in contributions of the EU27 - which several Member States explicitly ruled out already and which will inflame the net-payer debate - to the introduction of substantial new own resources to cover the UK contribution and substantially reduce overall GNI-based contributions.

<sup>1</sup> Final Report of the High-Level Group on Own Resources, December 2016, [http://ec.europa.eu/budget/mff/hlgor/library/reports-communication/hlgor-report\\_20170104.pdf](http://ec.europa.eu/budget/mff/hlgor/library/reports-communication/hlgor-report_20170104.pdf)

## Prioritising on the expenditure side: investing in the future

The UK exit from the EU and the resulting income gap has mainly sparked a debate on the expenditure side of the budget, the focus being on a reduction of expenditure, either through budget cuts across the board, the prioritisation of funding for priority areas at the expense of other funding programmes, or increased use of 'multiplier' funding instruments such as the European Fund for Strategic Investments. **In line with the proposal for an overhaul of the EU budget to make it future-proof**, we propose a complete rethink of EU budget priority areas, rather than indiscriminate cuts on all budget lines.

The priority areas for EU spending should match the outcome of the Future of Europe debate following discussions not only in the Commission, Council and Parliament, but also with citizens and civil society across Europe. Looking to the ongoing debates, papers and legislative proposals, **priority areas should include** the realisation of a Social Europe, the implementation of the Paris Agreements, youth employment and education, a compassionate policy towards refugees and migrants, structural improvements to the Economic and Monetary Union, stronger cooperation in security and defence and more participatory democracy at the Euro-



pean level.

Regarding **youth policy**, the EU budget should dedicate sufficient resources to existing and new youth initiatives such as Erasmus+, the Youth Guarantee, the Skills Agenda and the European Solidary Corps, as well as ensure better access to EU funding for youth organisations.

Regarding **migration policy**, EU funding should ensure the protection of those in need both in Europe and in refugee camps abroad, address the root causes of irregular migration and forced displacement, and support social inclusion policies for successful integration. This should happen in close cooperation with and with appropriate funding for local and regional authorities and civil society organisations.

Regarding **climate policy**, the new Multiannual Financial Framework must include a renewed EU spending target on climate action of at least 20%, while short-term efforts should focus on reaching the existing 20% target in the 2014-2020 MFF. Further-

more, the EU budget should support the rapid implementation of the Paris Agreements, supporting the transition towards sustainable renewable energy, decarbonisation and the circular economy. In parallel, new ways of using market-based instruments towards the same goals should be supported, including mainstreaming green finance in European capital markets, awaiting the report of the High-Level Group on Sustainable Finance.

The **Common Agricultural Policy** is flawed in its current structure and takes a very disproportionate share of the EU budget considering the priorities outlined above. A fitness check of the CAP is needed before the next Multiannual Financial Framework is discussed and its reform should lead to a new policy with clear priorities and a proportionate budget, which will also create room in the EU budget to direct resources to more pressing challenges.

## More than money: employing the budget for a more capable EU

Recent Member State breaches of EU values have prompted a discussion on conditionality in the EU budget, especially in relation to the cohesion fund and structural funds. **In the next MFF, provisions could be added that make the disbursement of EU funds to Member States dependent on their compliance with fundamental**

**principles of the rule of law, structural reforms related to the annual country-specific recommendations, deficit rules and/or participation in the European Public Prosecutor's Office.** The European Movement supports the move towards a closer link between the funds payed out to Member States and their compliance with EU rules and values, provided the conditionality and different steps of enforcement are clearly specified. It would give the European Commission a more practical tool to enforce the EU treaties, in particular regarding compliance with the rule of law, the enforcement of which has proven problematic.

The discussion on the future of EU finance also offers an opportunity to make the budget more **citizen-oriented**. On the revenue side, the introduction of new own resources that carry a clearer connection between the revenue source and policy priorities will make the budget more comprehensible. Some new own resources, such as the European VAT, would even allow for a directly visible link with citizens. Furthermore, the reduction of GNI-based contributions would also remove the negative focus of the net-payer debate, allowing

for the debate to focus rather on the spending priorities.

On the expenditure side, the introduction of **elements of participatory budgeting** could be considered. Participatory budgeting allows for the involvement of citizens in budgetary decisions that affect them, and can revive democratic participation and strengthen civil society. So far, the EU has only included participatory budgeting programmes in its budget support to third countries. However, it should further explore this venue through small-scale experiments linked to funds that are invested locally or regionally. A small part of existing funds could be dedicated to participatory budgeting programmes.

**A 5-year Multiannual Financial Framework linked to the EU political cycle** could introduce another link between the EU budget and citizens and give the legislature more power to implement their political programmes. It would allow for a debate on EU budget priorities during European elections, offering MEPs the opportunity to directly engage their constituents on this issue. It would offer citizens a vote on spending priorities as well as, for example, the form and level of

European taxes. It would introduce a clearer voice of European citizens in negotiations on the EU budget.

Finally, for reasons of clarity and transparency and to ensure democratic accountability, all EU funding mechanisms should be integrated in the EU legal framework and thus the EU budget. Thus, efforts to include the European Stability Mechanism in EU law should continue swiftly.

### The European Movement

seeks to provide a platform to encourage and facilitate the active participation of citizens and stakeholders in the development of European solutions to our common challenges. We offer thought leadership on the issues that affect Europe and we give the opportunity to representatives from European associations, political parties, enterprises, trade unions, NGOs and other stakeholders, through our 39 National Councils and 34 International Associations, to work together, towards improving the way that Europe works.

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