



Europe

## **The Future of EU Finances**

The results of a research project into the reform of the E U revenue system were presented during a symposium on “The Future of EU Finances” in Brussels on 14 January 2016. In a keynote speech, German Finance Minister Wolfgang Schäuble set out Germany’s reform proposals for an EU budget of the future.

**Date** 14 January 2016

**Location** Brussels

We are all aware of the huge challenges that the European Union has currently to face. The European budget can play a crucial role in order to manage these challenges effectively.

As some of you know, I have some sympathy of the idea of funding the EU budget by genuine revenues of the Union. This would mean that the Union would need full legislative and revenue authority for such revenues. However, pursuing such ideas at the moment is unrealistic, given the fact there will be no changes of the primary law at the moment. Having said this and accepting the world as it is today, we should strive to minimize wrong incentives of the current EU budget.

As the financial means of the EU budget are limited we have to identify strategies how to spend the European tax payers’ money in the most efficient way. It is necessary to launch a discussion and a process for restructuring the spending of European budget money. In this context, last September, Kristalina Georgieva invited me to speak at her conference on the European Budget. Four months later you have followed my invitation to discuss the future of EU finances.

During these last four months the orientation of the European budget has significantly changed. It has been adjusted wherever possible to the political priorities, first of all the refugee crisis.

We have used the flexibility of the budget to spend more money on goods and services with high European value like expenditures to curb migration where it develops. We are spending nearly 10 billion Euros on migration related issues in 2015 and 2016. The European Parliament, the Council and the Commission worked very hard to achieve a consensus on this. This is a clear proof that the European Institutions are able to act quickly if needed.

In addition we agreed on a €3 billion package to help migrants who have found shelter in Turkey. They need a perspective and Europe is willing to help financing it. With the aid-package to improve the situation for migrants in Turkey we have found a way to make additional money available without breaching the existing expenditure ceilings of the Multiannual Financial Framework.

It is an impressive signal that all 28 member states have committed themselves to complement the funding of the EU budget with significant bilateral contributions. This understanding will hopefully help to remedy the loss of credibility within the European Union that European citizens more and more complain about.

Four months after the Commission’s Conference we are coming together again. Today we want to discuss the future of the EU finances. And as I just pointed out, we are already in the middle of the process of shaping the future of the European finances.

I think the time is right to get rid of old habits. The existing financial buffers of the Multiannual Financial Framework are almost used up. If we want to finance our policy objectives respecting the existing expenditure ceilings we have to set new priorities for our budget.

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This year, 2016, is the year in which the Commission will present the mid-term-review of the Multiannual Framework. Let us use the review process for shifting our European spending priorities from the past to the future.

The Commission should use this opportunity to submit broad proposals. But we do not need proposals to put into question the ceilings of the financial framework. What we need are proposals to improve the effectiveness of the EU budget, proposals which link Europe's spending with economic governance.

I am sure the EU budget – which today amounts to nearly €150 billion per year – can make a difference, much more than it does today.

For the funding period from 2014 to 2020, we have nearly €1 trillion available to implement European policies. But most of this money does not address current challenges. In contrast, most of the money is spent on the basis of historical reasons; many of them are outdated today.

If we want to improve the way we spend the money of European taxpayers, we have to overcome the tradition to spend money on old priorities, and instead we should aim to spend money with a view to achieving real European added value.

Let me be quite clear: Instead of making plans for a eurozone budget, build on new deficits, we should first and foremost undertake a stringent review of the current EU budget – with the willingness to get rid of old habits.

I would like to offer the Commission three concrete suggestions what we should discuss in the review process of the Multiannual Financial Framework:

My first suggestion is: European money should be spent on things that deliver a clear European added value.

We have just learned that the protection of Europe's external borders is a task which cannot be ensured at the national level alone. If a member state with an important external border needs assistance Europe should provide it in its own interest. Migration policy is another spending priority with a high European added value. In the near future we need to develop a European defence policy as a logical next step. As a Union we could use the resources more effectively than the member states themselves.

However, currently most of the European money is still spent in areas which can better be dealt with by national policies. Over 70 per cent of the €1 trillion in the current financial framework is being used to replace national spending, which means that European money is financing non-European policies.

In concrete figures this means from 2014 to 2020, we plan to channel 420 billion solely to support agriculture policies. Another 360 billion is being handed over to national policy makers for national projects with often only little connection to the policy recommendations we agreed to.

It is the responsibility of Member States and the European Parliament to ensure that European taxpayers' money is spent on the right priorities. The new priorities are obvious, as I said before.

So let us use the review process for shifting our European spending from old structures to a convincing, future oriented financing of European policies. Let us put the money where our mouth is and let us turn the EU budget into a policy instrument which citizens will understand.

My second suggestion aims at more coherent policies within the European Union. Every year the Council adopts country-specific economic policy recommendations to identify the main economic challenges for each EU Member State. If we are really committed to these recommendations the EU's budget should support the respective Member States to implement these recommendations.

As I said already in September in Brussels: We should use the money that is currently spent for cohesion policy and parts of the agriculture budget to support structural reforms in Member States. Such reforms could contribute to sustainable economic growth and public debt reduction in the country itself and the EU as a whole.

The national projects which profit from financing by the European funds should systematically be designed to implement the Country Specific Recommendations. The Commission services need to make this the precondition for the financing of national projects.

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Let me emphasize that these two proposals will not necessarily cost extra money. The available money is sufficient, if it is spent on the right priorities. Therefore, we can deliver more European value while keeping the overall ceilings of the Multiannual Financial Framework.

However, we could create more flexibility within the financial framework. And that's my third proposal: The current Multiannual Financial Framework includes some flexibility.

But, if we want to deal effectively with new challenges and new priorities in the future, and, in particular, if we want to be able to react in a rapid and unbureaucratic way, we will need to ensure more flexibility of the European budget. Such a flexibility, which ensures that funds are available and can be redirected to unforeseen purposes, should be incorporated into the next MFF.

Finally, I would like to talk about the revenue system of the European Union.

The German Federal Ministry of Finance launched two years ago a research project on this very topic. Today, we are handing out the results. I would like to thank Thiess Büttner and Michael Thöne who have coordinated this project and have already given an overview of the main findings.

For me it is again and again a positive surprise to see that the current own resource system guarantees that the financing of the European budget is by definition ensured. If the Council and the European Parliament agree on a certain level of spending, it will be automatically financed by the members states – no questions asked. Unlike in national states, European spending doesn't depend on a given level of income; it is the other way round: The European spending level determines the European income level. Our research points out some of the misconceptions used in the debate of reforming the own resource system. Let me just name three of these misconceptions:

First misconception: It has been argued that a new source of revenue like an EU tax is necessary to provide more money for Europe. This sounds like a convincing argument but it is not correct. As I said at the beginning of my speech, I have sympathy for a bigger revenue autonomy for the Union in principle. However, in the current system, there is no need for new sources of revenue like an EU tax to provide additional money for Europe.

Thanks to the own resource system the EU does not have a financing problem. Member States have to finance the annually EU budget which has been decided by Council and Parliament. The budget level determines the level of expenditures and as a result – and in accordance with the current distribution key – the contributions of the member states have to be transferred from national budgets to the EU budget. If an additional own resource would be created only the structure of the financing would change, the expenditure level would remain the same.

Second misconception: It has been said, that the current own resource system is not democratic since the European Parliament has only a little say in own resource decisions. Indeed, primary law limits the role of the European Parliament in these questions. The Council has only to consult the Parliament. However, in the budgetary process the European Parliament has the same rights as the Council. They have equal power in deciding how much and where European money is being spent. And: As the level of spending determines the level of revenue, a bigger role of the Parliament in the revenue side would not increase its role in budgetary questions.

Third misconception: Members of the European Parliament have demanded a change of the own resource system since it is not transparent for European citizens. I agree the current system is not very transparent. Despite its appropriateness, only experts understand it in detail. I am very open to make the system more transparent. I think – for example – the rebate system is outdated and should be abolished in the medium term. In addition the VAT-own resource could from the German point of view be completely replaced by the GNI-own resource which is the most transparent and fairest own resource.

I am looking forward to discussing these findings with Kristalina Georgieva and the Chairman of the High Level Group on Own Resources, Mario Monti. Our work has been done to give the Monti High Level Group an input for their upcoming proposals.

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The findings of the research project are important guidelines for us. However, the decisions how the European budget will be financed in the future and – even more important – on what projects European money is being spent are the important policy decisions which will require a joint position of the Member States, the European Parliament and the Commission. We have to be aware of our high political responsibility.

We are right in the middle of shaping the future of EU finances. Let us keep up the process and the work we started four months ago and let us have courage to set new priorities.

Finally, I would like to emphasize, that the discussion, we are having today, is daily business of our work in Europe. We are having such discussions over the past years. But today's situation is different. We are facing dramatic challenges, in our neighbourhood regions, in Ukraine, and in the Middle East.

To cope with these challenges, we have to employ several instruments at the same time: means of diplomacy, military interventions, and substantial financial support.

In order to tackle these problems, we have to equip ourselves with the necessary means.

As I said four months ago at the conference hosted by Kristalina Georgieva, Germany is open for broad and innovative proposals of the Commission.

However, as I said, giving the EU a new own resource based for example on the gasoline tax is not that easy.

But we should not stop looking for innovative solutions. This could mean that we need to assemble a coalition of the willing. A coalition which is able to tackle the most urgent problems.

A failure of Europe is no option.

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## **More on this topic**

[Final report on the research project on the future of EU finances \[PDF, 2MB\]](#)

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