EU Budget: Remaining Prisoner of the Net Positions or on the Way towards Fiscal Federalism?[7]

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Abstract

The EU budget was originally created in order to secure the financing of the joint activities of the Member States – in fact, the common policies. However, the Member States have since the beginning paid special attention to the balance between their contributions to and receipts from the EU budget; this approach has substantially limited the fulfilment of the EU budget's original objectives.

The question is whether it is possible to move from a situation where the Member States concentrate on their net positions towards a more constructive approach meaning that it is the – jointly agreed and defined – common policies that determine the contributions and receipts to and from the EU budget; a specific form of this latter approach can also be the realisation of the so-called fiscal federalism.

The present article focuses on the above question, by briefly presenting the problem of imbalances in Member States' net contributions and comparing the practice of the "juste retour" approach with a hypothetical "fiscal federalism". Taking into account recently published documents from the European Commission, it draws conclusions regarding the chances of remaining prisoners of the net positions or taking decisive steps on the (long) way towards fiscal federalism.

Keywords: European Union, budget, fiscal federalism

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1. Introduction

The European Union (EU)[8] is a unique integration: it is far more complex than an international organisation, though, after more than sixty years of development, it is still far less deep than a federal state. This specific feature of the EU is reflected in all aspects of its functioning: the complexity of political decision-making, the institutional setup, the way common policies are decided upon and realised and also the way its activities are (partially) financed: the EU budget.

The EU budget is a special product of the integration process and the debates around it reflect the differences between supranational and intergovernmental approaches to the issue of integration. Though the budget was originally created in order to secure the financing of the joint activities of the Member States – in fact, the common policies –, the Member States have since the beginning paid special attention to the "juste retour", that is, the balance between their contributions to the common budget and their receipts from it.

The above contradiction between the original objective and the everyday practice of the EU budget has become increasingly important since the 1980s; the most well-known feature related to this is the UK rebate, but further (related) rebates and other specific arrangements are also present, and their role does not seem to diminish.

Until 2013, the multiannual financial frameworks (MFF) have increased both in nominal and real terms. The MFF for the period 2014–2020 has, however, become a turning point: it is the first time that the financial resources of the EU budget are less (in real terms) than in the previous period, despite the fact that the number of the Member States as well as their diversity regarding their development level is bigger than ever.

In the meantime – partly, but by far not only due to the issue of the Brexit – the debates about the architecture and the future of the European integration process have become very intensive. The extreme positions are a

[8] In order to make the reading of the text as comfortable as possible, in this paper, we use the term „European Union" and the abbreviation „EU", independently from the period we are referring to. Of course, we are aware of the fact that the EU as such has existed since the ratification of the Maastricht Treaty (November 1993). For periods before that date, in this paper, under „EU" we understand the European Communities (EC).

renationalisation of a multitude of currently joint or coordinated activities and the progress towards an “ever closer Union”.

The extreme options above can also be interpreted in the case of the EU budget. In this case, the question is –and has been for decades – whether it is possible to move from a situation where the Member States concentrate on their net positions vis-à-vis the common budget towards a more constructive approach meaning that it is the – jointly agreed and defined – common policies that determine the contributions and receipts to and from the EU budget; a specific form of realisation of this latter approach can also be the realisation of the so-called fiscal federalism.

In this article, we focus on the debates on net contributions. We present the reasons of the focusing on Member States’ net positions vis-à-vis the EU budget, as well as the basic logic behind the principle of fiscal federalism. We also present recent proposals from the European Commission for the reform of the EU budget and take into account the potential effects of the different scenarios. In the end, we can draw conclusions regarding the overall development trends of this debate: do the Member States (and thus the EU) remain prisoner of the net positions or whether they are on the (long) way towards fiscal federalism?

2. Roots and reign of the “juste retour” approach

As Member States assure the financing of the EU budget, and they are also the ones who (more precisely, whose enterprises and citizens) enjoy the results of EU budget spending, it is quite logical that the balance of contributions and receipts has become a focal point for the representatives of all Member States. We have to acknowledge that this is logical, despite the fact that the objective of the EU budget is not to generate contributions and later pay them back to those who have paid them in (pulling the argument to the extremity, this could be the “ideal solution” of all problems and debates related to Member States’ net positions), but to finance jointly agreed policies with an intended EU-wide positive effect.

The attention paid to the balance of payments to and receipts from the EU budget (the so-called net position of a Member State vis-à-vis the EU budget) has increased parallel to the increase of the number of Member States and of the differences between their development level and specific problems.

With the first enlargement of the EU in 1973, budgetary conflicts began to deepen. The most important source of conflicts was the unbalanced net position of the United Kingdom: its contributions exceeded by far its receipts from the common budget. The most important reason for this – at that time unique – situation was the fact that the UK received only a minor part of the expenditure of the budget. Agriculture was by far the biggest expenditure heading (representing over 70% of total expenditure). The weight of agriculture in the economy of the UK was very low, so the UK had no chance to receive significant amounts from the common budget. An additional argument for the treatment of this problem was that the UK was (at that time) one of the least developed Member States (according to GDP per capita data), and thus its net contribution seemed excessive.

After long debates and efforts, the Fontainebleau European Council in 1984 decided about the so-called UK rebate. The very heart of the decision is that it recognised the excessive net contribution of the UK, and established a mechanism – the UK rebate – in order to correct this imbalance. As a result of this mechanism, the UK net contribution is reduced by two-thirds of its (normally calculated) value; these two-thirds are paid back ex-post (as reflected in the name "rebate"). The rebate is financed by the other Member States.[9]

The mechanism solved the problem of the UK – returning to it billions of ECU/EUR per year –, but created additional problems. In the 1990s, it became clear that other countries had also reached a net contributor position that could also be called excessive. No wonder that debates sharpened many times, and in 1999, at the Berlin European Council the Member States agreed on a "rebate on the rebate": actually, four Member States with high net contribution (related to their GDP) enjoy a 75% reduction of their normal share of financing the UK rebate (Austria, Germany, the Netherlands and Sweden).[10] The problem, however, is still alive; it is also sharpened by the fact

[9] For details on the UK rebate, including the rules on and the shares in its financing by the other Member States, see D'Alfonso (2016).

[10] European Commission (2014), p. 134. Further corrections of contributions of the own resources system are also directly or indirectly related to the UK rebate and to the need to give something to Member States with net contributions that are judged as „excessive".

that the UK is no more one of the least well-to-do Member States, and especially not in the EU28.[11]

During these decades, despite important systemic reforms of the EU policies (the so-called Delors-packages), the "juste retour" approach (the concentration of the Member States on their net position – as it is important to get "back" a "just" amount from their contribution) has gained importance. Especially after the completion of the above-mentioned systemic reforms in the late 1980s and early 1990s, with the increase of burdens of the big net contributor Member States, the problem has become a more and more tangible obstacle of any substantial reform of the EU budget.

The consequence of this situation is that today, the EU budget is a result of many compromises, reflecting the "juste retour" approach in its limited size, own resources system, expenditure headings, weights of individual expenditure items and in a high number of exceptions, "specific cases". This does not mean that there are no changes at all, but changes in the EU budget in the 2000s have been much smaller than the new challenges the EU has to cope with.

3. The concept of fiscal federalism

In contrast with the concentration on net positions, the debates on the EU budget should concentrate – as we already mentioned – on financing jointly agreed EU policies which are expected to have EU-wide positive effects. This principle is only partially realised; those who are in favour of a closer, more supranational integration, emphasise the necessity of change in this respect.

The EU, as we said in the introduction, is a unique integration, and this has consequences in all aspects of its existence. On the political level, the history of the European integration process can be regarded as the development of the balance of power between a supranational and an intergovernmental approach. While some periods have brought the strengthening of one of these

[11] Related to the Eastward enlargement of the EU, the UK rebate has been adjusted downwards (the contribution to the pre-accession funds and to the expenditure in the new Member States are handled differently from the „old" expenditures when calculating the UK rebate. Thus, the UK's share in financing enlargement can be regarded as „fairer" than without these corrections (European Commission (2014), p. 135)). However, the problem that significantly poorer Member States contribute to the financing of the UK rebate and related rebates are still present.

streams, others the strengthening of the other, it can be clearly seen that European integration is a result of the coexistence of supranational and intergovernmental forces, structures and institutions.

At one extreme, a not fully, but strongly supranational construction could lead to a European federation[12]: a dream of some of the founding fathers of the integration process and a nightmare for many leaders in the EU today. At the other extreme, returning to intergovernmental structures in all aspects of life of the EU would destroy many of the results that the Member States have reached together during the last six decades; of course, opinions concerning such an option differ as well.

When we try to "translate" these extremes for the situation concerning the EU budget, we come to an interesting result. The "translation" of federalism for the budget is the so-called fiscal federalism, an approach in which all levels (sub-national, national and supranational) have their responsibilities and functions, with regard to both resources and expenditures; in the practical functioning of such a system, the application of the principle of subsidiarity is of key importance.[13]

Regarding fiscal federalism, Alves-Afonso (2008), referring to Oates (1998) wrote that „the use of the term 'federalism' in economics is somewhat different to its normal use in political science. In the latter, it refers to a political system with a constitution that guarantees a set of principles and proceeds to the sharing of competences between the various levels of power. In the case of economics, all public sectors are relatively 'federalized', given that all of them provide public goods and services and have some autonomy of decision: it deals, then, essentially with the questions that involve the vertical structuring of the public sector. In this context, the fundamental aim is to find the most suitable way of sharing responsibilities and of using instruments through the various levels of 'government', so as to optimize their performance.

As there are clearly no rules or rigid formulas that determine a situation of 'fiscal optimum', which is highlighted by the diversity of fiscal structures in the various federations (similarly, in fact, to the case of political and institutional structures), the literature in the framework of so-called 'fiscal

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[12] Of course, the real (but today fully unrealistic, therefore not discussed) extreme would be a European state – this is even further from the reality than a European federation.

[13] For details on the theory of fiscal federalism and (the limits of) its applicability for the European Union, see Alves-Afonso (2008) and Begg (2009).

federalism' has attempted to find some guidelines for the vertical structuring of government."[14]

According to Begg (2009), „Fiscal federalism concerns the division of labour between tiers of government in policy-making, instead of being confined to fiscal arrangements in federations. Earlier contributions (first-generation fiscal federalism) focused on the normative case for assigning responsibilities to different tiers of government and for shaping the inter-actions between levels of government. What has become known as second-generation fiscal federalism complements the earlier work by looking at the incentives facing policy-makers, how to prevent government failures, and exploring the institutional structures that offer the best prospects for efficient and effective government."[15]

In principle, the mechanisms described above are in line with some key guiding principles that are part of EU policies: the general principle of subsidiarity or the principle of partnership (in regional and cohesion development programmes) are the most tangible examples. In the next point, we will examine how far the EU budget itself is currently from fiscal federalism.

4. "Juste retour versus fiscal federalism": reality and dreams/nightmares

As we have already seen, the decision on the UK rebate in Fontainebleau had important long-term effects – not "just" the problem of the rebate itself, but, even more importantly, the justification of the need of a certain "treatment" of "unfairly" big net contributor positions. This has led to a situation where Member States have been concentrating – even more than before – on their net positions and comparing it with the net positions of other Member States, and, in several cases, asking and also getting "remedies" to these problems.

Needless to say, this vision of the issue of the net contributions is logical from the point of view of the Member States: they are led by politicians elected by their citizens, and these politicians want to (because they have to) show that they are brave enough to defend their countries' financial interests.

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[14] Alves-Afonso (2008), pp. 7-8.

[15] Begg (2009), pp. 7-8.

Despite the formal domestic political logic of this approach, there are serious problems if one looks into the real content of integration- and EU budget-related issues. First, the costs and benefits of the integration process are by far wider than payments and receipts to and from the EU budget. Of course, it is far more complicated (if not impossible) to calculate an at least nearly exact amount of benefits from the Single European Market for, let's say, Germany than to compare its payments into the EU budget with its receipts from there, and asking for remedies for this situation.[16]

Second, the EU budget has not been designed with the objective of managing – potentially "fair" amounts of – financial transfers between Member States. Its revenues are determined by common rules, its expenditures are the function of (some of the) common policies. In principle, the issue of "juste retour" has no logical place in such a system. The problem is put into the foreground by the fact that until today, the overwhelming majority of the revenues of the EU budget (in fact, all the own resources) are collected from the Member States, are visibly related to Member States.

Of course, there have been several attempts since the last major reforms of the EU budget (the Delors packages) to move in a different direction. Ideas of new own resources have been put forward in different papers[17], some of them have also appeared in European Commission documents; however, these ideas have been swept off the negotiation table very rapidly.

As a result of all these tendencies, the debates on the EU budget are concentrated around the net positions. Net positions influence everything from the size of the EU budget to the shares of the expenditure items – one can, for example, remember the infamous letter written by the representatives of the six biggest net contributor Member States to the European Commission

[16] Of course, Germany is not the only example; still, it is the most illustrative as we talk about the clearly most powerful economy of the EU, which, as a consequence of an imbalance (judged excessive) of its contributions and receipts to a budget – in principle designed to serve EU-widely accepted objectives and being roughly 1% of EU GNI – is compensated for this imbalance by corrective measures at the expense of other, weaker economies.

[17] One of the most detailed analyses on potential new own resources for the EU budget has been provided by Cattoir (2004). Richter (2008) has (beyond some more moderate options) proposed a comprehensive radical reform of the current system of the EU budget in order to be able to get rid of „the monster" juste retour. Recently, the comprehensive report prepared by Monti et alia (2016) has devoted attention to many features of the EU budget both on the revenue and the expenditure sides; an enumeration of potential new resources is an important part of the report.

in December 2003, delaying the publication of the European Commission's proposal for the next MFF by three weeks, and influencing the debate to a great extent from the beginning.[18]

The reply of Romano Prodi, President of the European Commission at the time (see box), presents the situation – not only the (then) actual situation, but also the long-term problem – very clearly.

[18] The situation during the negotiation on the 2007-2013 MFF has been years in advance deteriorated by the fact that Gerhard Schröder and Jacques Chirac (the German chancelor and the French president at the time) have concluded an agreement in 2002 regarding CAP payments until 2013; although seen as a „dictate" of the leading tandem of the EU (and, by the way, of two important net contributors to the EU budget), this agreement has been accepted by the other Member States. This has led to an unprecedented situation that practically only the (bit more than the) half of EU budget expenditure was subject to the normal negotiations in 2004-2005.

“Statement of President Prodi following the initiative of six Member States

Today I have received a letter from the leaders of France, Germany, Netherlands, Sweden, United Kingdom and Austria. In this letter it is argued that in an enlarged European Union the expenditure should not exceed 1.0 % per cent of GNI. In their view this includes agricultural spending within the ceiling set by the European Council in October 2002.

The current ceiling for EU expenditure is 1.24 per cent of GNI.

I take note of the points made in the letter.

I also take note that these Member States, like everyone else, say they want to create the most competitive economy in the world. They wish to achieve better protection of our borders. They insist on controlling migration more efficiently together. They want to build a Union that has a more effective foreign and security policy.

At the same time all Member States want that the Union expresses more solidarity to its poor regions and spends as much money as we do today on agriculture.

I, too, am in favour of achieving all these goals and as always, will do my best to achieve them.

Miracles, however, are not my speciality and they don't seem to come easily to Member States, either.

We will study these ideas seriously but with only 1 per cent of GNI it will simply not be possible to do what these Member States - and all others - expect from us.

If the means attributed to the budget of the Union are not adequate, less will have to be done and some of these goals cannot be fulfilled.

Consequently, I wonder whether this is a reflection of the kind of level of responsibility that these Member States actually want that the Union of 25 achieves.

The Commission will present its political framework for the new financial perspectives in January. We will build our strategy on the basis of the policies that have been declared by the Union as priorities for the Union, which the Community budget should support starting from 2007."

Forrás: Statement of President Prodi following the initiative of six Member States, IP/03/1731, Brussels, 15 December 2003, http://europa.eu/rapid/press-release_IP-03-1731_en.htm?locale=FR

The focus on net positions has led to the rapid increase of exceptions related to the EU budget. On the revenue side, these exceptions look relatively (but only relatively!) systemic: as we have already seen it, different groups of (net contributor) Member States enjoy(ed) reductions of their contributions to the own resources; during a given period, the mechanism of the reductions has been similar in the case of the Member States concerned by them.

On the expenditure side, however, a multitude of ad hoc decisions, allocations could be seen in the last decades, and these ad hoc decisions undermine the policy-based (initial) logic of EU budget spending. Such decisions (normally considered as exceptions) have become "regular" elements of the compromises reached during the last hours of negotiations on the (next) financial perspective, in many cases without a systemic (or any) justification.

Bearing all this in mind, it is not difficult to come to the conclusion that the EU budget as it is today is even further from fiscal federalism than the whole integration process from a federation. This is despite the fact that the MacDougall report (European Commission (1977)), published four decades ago, has clearly described the necessary size and mechanisms of a budget that could – according to the authors of that report – match the needs of the integration. For an integration with nine Member States, being far from the depth of integration today, the Report has proposed in the case of a "large public sector federation" (in line with the central budgets of existing federations) a budget of 20-25% of the Member States' total GNP. For a "small public sector federation", the proposal was a budget of 5-7% of the Member States' total GNP (European Commission (1977), p. 20).

This conclusion – that the EU budget is further from fiscal federalism than the whole EU from a federation – can be surprising, but only at first glance: in most issues, things are considered really seriously from the moment when it comes to decide about financing them; this limits the size of the EU budget and also the speed and the magnitude of changes on its expenditure side. The limited readiness for a "federalisation" of the EU budget is clearly present on the revenue side, as well: the role of really "common", policy-related resources is quite small in the financing of it, and – at least until now – all attempts to change this situation and to introduce new, policy-related financial resources have been swept off the negotiation table by the representatives of the Member States. In fact, fiscal sovereignty looks one of the most sensible areas of sovereignty (interestingly, even more than monetary sovereignty – the most striking example for this is Germany, the leading economic power of the EU and for almost two decades also of the Eurozone, but traditionally not supporting the idea of any EU-tax).[19]

Today's "juste retour" approach can be seen as the translation of intergovernmental structures into the language of the EU budget. It is national governments whose interests dominate the debates, therefore, in order to find a solution at the MFF negotiations, status-quo based compromises have *a priori* higher chances than far-reaching reform ideas. The inertia of the system is thus very high; in order to have a chance to find the necessary political will to change it, serious challenges, and a far-reaching consensus regarding the proper way of dealing with these challenges are necessary.

In recent years, the EU and its Member States have seen several challenges of economic, social and political nature – from this point of view, the moment seems to be rife for trying to achieve substantial changes in the activities of the EU, including also a substantial reform of the EU budget. However, while the challenges are there, there are differences between how the representatives of the Member States imagine the right way to react to them.

The challenges and the differences in Member States' reactions have led to the publication of the White Paper on the Future of Europe, and later on, different reflection papers by the European Commission (European Commission (2017a), European Commission (2017b) and European Commission (2017c)), presenting various scenarios of the development of the integration process as a whole as well as of some specific key issues of the integration process.

[19] The survey results presented and analysed in Eriksson-Szemlér (2008) clearly show the rejection of several Member States of giving taxation rights to the EU. Recently, Becker (2016) also confirmed the presence of such an attitude in "a majority of member states" (Becker (2016), p. 6. Mrak-Richter-Szemlér (2015) examined the taxing power in the EU according to the 13-degree scale of the OECD; it is not surprising that they wrote that „In terms of taxing power the EU, in the quality of a CG, is nearly non-existent." (CG: central government, thus the EU level in this case). (Mrak-Richter-Szemlér (2015), p. 6.

5. On the Way to …? – Scenarios and Policy Options

On 1 March 2017, the European Commission published a White Paper on the Future of Europe (European Commission (2017a)), presenting five scenarios of the future development of the European Union. The document was a reaction to the situation of the EU facing the immigration crisis and the prospect of Brexit; the five scenarios presented in the document have been named as follows:

- „Carrying on;
- Nothing but the Single Market;
- Those who want more do more;
- Doing less more efficiently;
- Doing much more together." (European Commission (2017a), pp. 16-25)

On 28 June 2017, the European Commission published a reflection paper (European Commission (2017c)) on the future of the financing of the EU – that is, on the future of the EU budget. This document also outlined five scenarios, in line with those presented in the White Paper; the scenarios presented in the reflection paper are the following:

- „Carrying on: the EU27 continues on delivering its positive reform agenda;
- Doing less together: the EU27 is doing less together in all policy areas;
- Some do more: the EU27 allows groups of Member States to do more in specific areas;
- Radical redesign: the EU27 do more in some areas, while doing less elsewhere.
- Doing much more together: the EU27 decide to do more together across all policy areas." (European Commission (2017c), p. 30)[20]

[20] We should not forget that before the publication of this document (but after the publication of European Commission (2017a)), the European Commission has also published a document on the deepening of the Economic and Monetary Union (European Commission (2017b)); as the budget (namely the idea of a budget for the Eurozone) is mentioned there, this document is also important from the point of view of our topic. Later on, discussing the five scenarios, we will also meet this aspect in scenarios 3 ("Some do more") and 5 ("Doing much more together") in which a dynamic development of the integration process (for all Member States (scenario 5) or for a willing and able group of them (scenario 3) is foreseen.

Depending on the scenarios, various paths can be realised as a result of the political discussions, and (based on that result) of the structural and technical arrangements concerning the EU budget after 2020. We look now at the overall consequences of the five scenarios for the EU budget.

The Reflection Paper on the Future of EU Finances presents and discusses the five scenarios (European Commission (2017c), pp. 30-35) concentrating on three main aspects:

- General trend and volume of the EU budget (size, content, use of EU budget and additional resources);
- Developments on the expenditure side (changes in major headings, eventual new priorities appearing);
- Developments on the revenue side (continuity and/or changes in the functioning of the own resources system, including the issue of the rebates).

Scenario 1 ("Carrying on") presents a development path which is quite well-known from the last two-three decades of the EU budget. Since the Delors packages, systemic reforms could not take place, but the budget was always (at least partially) adapted to the challenges the EU faced[21]. Such an adaptation is present in this scenario for policy priorities related to security, defence, migration and external action, and, to a limited extent, to competitiveness. Given that "status quo" is at the very heart of such a scenario, the size of the EU budget is supposed to remain about as limited as it is (or even more limited taken into account the potential effects of Brexit), some other policy priorities have to lose weight: these are the amounts to be spent on economic, social and territorial cohesion and on agriculture – a trend that has clearly been present for more than a decade now.

Regarding revenues, the changes foreseen consist of the disappearance of the rebates[22] and of the introduction of new sources of revenues; while the first

[21] E.g. financing cohesion policy from the beginning of the preparation for the Economic and Monetary Union; financing the agreed costs (with a phasing-in period) of the Eastern enlargement of the EU, putting more weight on the issue of competitiveness.

[22] The disappearance of the rebates, however, does not mean the disappearance of all exceptions regarding the contributions to the own resources: as we have seen, there are also a number of Member States other than the UK with important net contributions enjoying different types of advantageous treatments. Of course, rebates *stricto sensu* have a chance to

element can be regarded as a logical consequence of Brexit (if it takes place), the second one seems to be quite optimistic as part of a scenario called "Carrying on", as we know that similar attempts have been blocked several times in the last decades during negotiations on the reform of the system of own resources.

Scenario 2 ("Doing less together") is clearly a pessimistic one: financing the EU in this scenario would basically mean a limited financial support to the functioning of the Single Market. Spending on competitiveness may increase, but less than under scenario 1; all the other already existing items would receive a more limited funding, while security, defence and migration (as part of the current reform agenda) would not receive funding at all: it is clearly an image that shows us that more actions will be in the hands (and need the direct financing) of the Member States, even if urgent Europe-wide issues appear. On the revenue side, the only projected change is the disappearance of the rebates.

Scenario 3 ("Some do more") presents us the image of a multi-speed integration and the consequences of such a development for the EU budget. Due to the flexibility allowed by such an approach, additional budgets (related to various fields of integration where only a part of Member States decide to "do more" (allowing, of course, the possibility to join later to others willing and able to do that). This can also mean that the size of the budget(s) can be somewhat bigger than today. Regarding competitiveness, economic, social and territorial cohesion as well as agriculture, the development is foreseen to be similar to the one presented under scenario 1; quite clearly, these are not the focal points (at least for the European Commission) of policy priorities (except for competitiveness to a certain extent). On the contrary, security, defence and migration as well as external actions can have a higher share, as a consequence of the potential higher contribution (and activity) of (a certain number of) Member States in these fields.

The big "news" in the case of this scenario consists of assuring financing for macroeconomic stabilisation for the member states of the Eurozone, in other words, a budget for the Eurozone would (finally) be created. This would be a very important achievement as it would (with a long delay) follow the events

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disappear if Brexit takes place, but this in itself does not solve the problems related to the "juste retour" approach – of course, this is also an integral part of "carrying on".

that have taken place in the economic integration during the last two decades. On the other hand, such a development could also shape the forms of other additional budgets in fields where circles of deeper or faster integration will be formulated in the future.

Regarding revenues, the disappearance of rebates plus the (not clarified) financing of additional budgets by the participating Member States are the key changes foreseen under this scenario.

Scenario 4 ("Radical redesign") is based on the general assumption that EU financing would be concentrated on areas with high EU value added.[23] This would result – according to the prospects provided by the report – in a smaller EU budget. Economic, social and territorial cohesion as well as agriculture would be "losers" in this scenario (as well), while competitiveness would have a higher share than today (whether it would also mean a higher amount depends on the changes in the volume of the EU budget, as well). Security, defence, migration as well as external actions would have a "significantly higher share" in the EU budget expenditure under this scenario; again, the question is again the overall effect of the (foreseen as negative) changes in budget size and the (foreseen as positive) changes in these items' shares in total EU budget expenditure.

Regarding revenues, this scenario resembles scenario 1, with a potential further simplification of the system. As in the case of this scenario we talk about a radical redesign, the possibility of the introduction of new own resources is foreseen, as well.

Scenario 5 ("Doing much more together") is the most optimistic scenario presented by the report. It is the scenario that would bring the European Union towards a much deeper integration – a road which, if continued consequently in the long run, could also lead to a federal structure.

The financing of such a scenario would require substantially more resources than the EU budget today, as the objective is clearly set: "doing much more across policy areas". This means that in absolute terms, there are no "loser"

[23] It is interesting to note here that high EU value added has been an important argument in EU budget related debates for many years now; still, a significant move to the consequent application of this argument can be regarded as an important step forward (even if the definition of EU value added is in itself subject of many discussions).

items on the expenditure side. Economic, social and territorial cohesion could receive higher amounts than today, while in the case of competitiveness, also the share (within an increased budget) would increase. Security, defence, migration as new priorities, together with external actions could have a "significantly higher share" from the increased EU budget expenditure.

Logically, scenario 5 also contains the macroeconomic stabilisation function we have already seen under scenario 3; in case of scenario 5, the creation of a European Monetary Fund is foreseen, as well.

Regarding revenues, not surprisingly, this is the scenario which contains the most important changes: not only the creation of new own resources and their involvement into the financing of the EU budget, but also the prospect that they will be able to finance a significant share of it.

On the basis of the scenarios, we see very different potential ways of development for the European integration process and, correspondingly, for its financing. As we have seen, today, when the results of MFF negotiations are heavily dependent on compromises born in order to satisfy all (or most) member States' short-term ambitions stemming from an approach focused on net positions vis-à-vis the EU budget, we are very far from a coherent system based on common policies, a subsidiarity-based combination of different levels of decisions and responsibilities and a coherent and clear system of financing. Among the scenarios drawn up by the European Commission, there are ones that offer more in this respect; it is the question of the readiness of Member States to move together further (or at least to allow enough flexibility in order to assure the possibility of moving together further for those who are willing and able, potentially making such steps –in case they prove to be successful – attractive for further Member States on the longer run.

All this depends on political decisions to be taken together by national and EU leaders in an environment full of internal and external economic, social and security tensions and pressures. This may in some cases make the tasks looking more complicated than normal, but, on the other hand, it is exactly in such situations that far-reaching reforms (in "normal" times probably watered down or swept off the table) may have chances. With the White Paper published in March and with the subsequent thematic reflection papers, the European Commission has taken very important steps: from now on, no one can deny that the initiative has not been communicated, scenarios have been set up and are continuously refined and discussed. It is now the task and the responsibility of national and EU leaders to make the next steps.

6. Concluding remarks

The European integration process is – not for the first time in its history – at a crossroads. Similarly to earlier crises of the integration process, systemic reactions to the challenges have come with a considerable delay – but, as one can see it from the documents published by the European Commission in the first half of 2017 and presented in this article, such reactions are beginning to be formalised.

Of course, by now, we cannot talk about clear solutions of the problems, or even clear guidelines regarding the future of the EU budget. What we can, however, see is a structured analysis of the situation of the European integration process in general and in different fields (one of them being the EU budget) and a coherent presentation of potential general development paths of the integration process and corresponding options for the EU budget. This way of presentation makes the consequences of choosing one or another option very transparent, helping not only decision-makers, but also the citizens in formulating their opinion.

Of course, this is a necessary – and welcome – development, but it is in itself not sufficient for changing the nature of debates on the EU budget. We have to see which of the scenarios – or, more probably, which combination of the different elements of the scenarios – will be the choice of the Member States, and then, what will be the consequence of this choice for the EU budget.

In principle, there are scenarios that would – potentially – require a bigger EU budget, and/or closer relations to the EU's policies. In other words, there are such options which would bring the EU closer to fiscal federalism. However, we shouldn't exaggerate the chances of such options, especially not for the whole of the EU (EU28 or EU27); the necessary steps often meet the resistance of Member States worrying about their sovereignty.

There could be more chance of coming closer to fiscal federalism in a smaller circle of Member States, if multi-speed integration ("those who want more do more") becomes the scenario that will be realised. In this case, however, we will probably not be able to speak about "the" EU budget as today (for the whole EU), but rather about different budgets for different circles of Member

States and different depths (meaning also a different number of fields) of integration.[24]

A substantial reform of the EU budget is one of the “evergreen” topics of the European integration process. A brand new approach would optimally consist of a change in the debates regarding the EU budget. Instead of focusing on net positions, reflection on up-to-date common policies should be in the foreground. Based on a jointly decided set of such policies (and, if necessary, of different integration circles or speeds), a budget (or budgets) of an adequate size should be agreed upon. The financing of such a budget should rest on common and autonomous resources closely linked to the common policies.

The development path to be chosen is of vital importance for the future of the European integration process. Each option has a certain message for the integration process as a whole – some of them more optimistic, some of them less so. But it is equally important to consider the options with a strategic approach from all the Member States of the EU; each Member State has the deepest interest in a development assuring (or at least promising) to it the position that is judged to be the best on the basis of an overall evaluation of gains and burdens in all aspects of integration. The budget is a closely related, very tangible, but (looking at total possible gains and burdens) not major element of this puzzle. It is the acknowledgement of this fact as well as the realisation of the importance of European values and European value added by Europe’s political leaders that can be decisive factors in the debates shaping the European Union and also its budget in the mid- and long-run.

[24] One of the most tangible (and also most logical) ideas in this respect is the idea of a budget for the Eurozone; this has recently been mentioned both in European Commission (2017b) and European Commission (2017c).

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