On a Single European Tax

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Abstract

The reform of the European budget is a continue subject of disputes, since 2006, not only among political leaders, but also among the scientists and experts in the public policies. The crucial issue is the system of own resources of the European budget. In such a context, the paper analysis the possibility of introducing of a single tax in the European Union, which should replace the current four categories of resources, including the direct national contribution based on GNI (Gross National Income). To this end, the principles, criteria and other possible consequences (economic, fiscal, social, and moral) which such a tax involves are identified and examined. As a result, the paper suggests such a singe tax to work at the European Union level, aimed at to avoid (or, at least, considerably reduce) the political disputes supported by the Lisbon Treaty unanimity procedure in the European budget matter.

Keywords: European budget, own resources, singe European tax, taxation, European Union, Gross National Income.

JEL Classification: E62, F15, H21

1. Introduction

The European budget is the main financial tool by which the process of economic integration and convergence is driven within European Union. In the European construction can be identified four tools aimed at to initiate, conduct, and finalize such a construction:

- *axiological* tool: is the set of European values on which and for which the European construction is initiated and made. Although a proper said European set of values is still undergoing crystallization, many of them are in force and guide the purposes forming and the actions establishing. This tool represents the *final cause* of the European construction.
- *political* tool: is the most important and productive toll. In fact, European Union is a deliberative social construction, projected by an intellectual project[1]. Moreover, the European construction is based on fundamental political documents – the treaties – as primary macro-norms, which generate all the secondary and tertiary norms (communitarian legislation) to design the road of European construction. This tool represents the *formal cause* of the European construction.
- *ideological* (philosophical) tool: European construction should and really provided to its citizens a „story", that is, a vision, a model of the world (Weltanshauung) to coagulate and create the necessary synergy. This vision is offered by the European ideology or social philosophy (for example, the social model of the economy, or the state of the law). This tool represents the *efficacy cause* of the European construction.
- *financial* tool: the purposes of the European construction must be financially supported in order to be implemented. Such a support base is the European budget, which is different from the national budgets of the member states, and is aimed at to accomplish the

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[1] European construction is not at all an emergence, that is, a „natural" process as some analysts claim.

European purposes, not the national ones. This toll represents the *material cause* of the European construction.

Figure 1 synoptically shows the four tools/cause of the European construction.

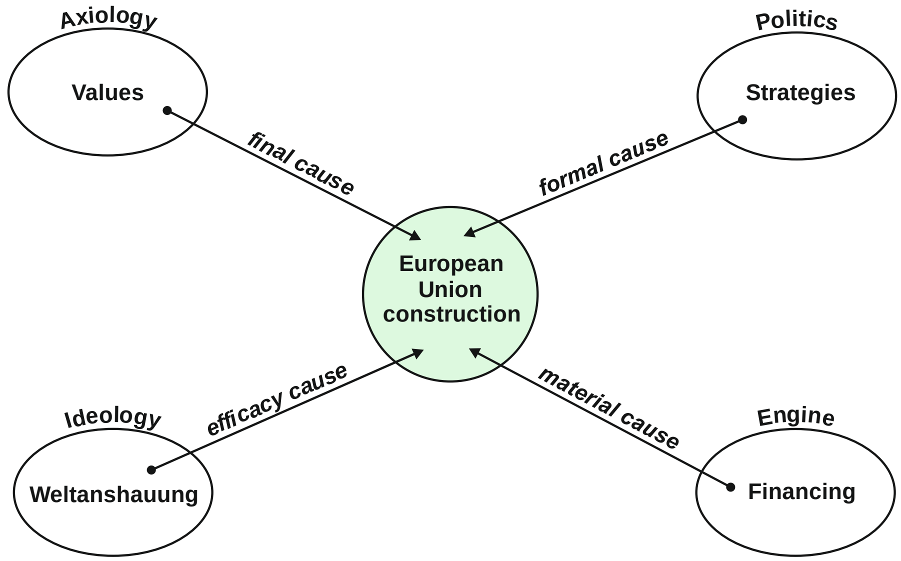

Figure 1. *The four causes of European construction*

2. The statu quo

The purpose of the paper is only one from the four tools of European construction – the financial tools, which ensure the material cause of this social construction, that is, the European budget. We do not address, regarding the European budget, than the issue of the revenues, more exactly, the structure and the mechanism of forming the European budget revenues.

There are now three categories of EU budget own resources:

- traditional resources
  - customs duties regarding the external trade with non-EU countries
  - agricultural production tax
- value added tax (VAT) collected by member states in their national economies
- the contribution of each GNI state, based on the Gross National Income (GNI)[2]

3. The problems

Regarding the current situation of the revenues system and mechanism of the EU budget some questions must be addressed:

a. there is a conceptual (and methodological) contradiction between the compulsory balanced EU budget and the own revenues sources (traditional resources, and VAT respectively). Indeed, if the EU budget own revenues is based on the traditional resources collected by the member states, that is, if the EU budget revenues are depending on the economic

[2] Some authors do not consider this revenue is of nature of own revenue, because it is aimed at to ensure the balancing of the European budget, if it is not balanced by the proper own resources.

conditions and processes in the member states, there is no assurance regarding the EU budget balance. To manage such a situation, would be two solutions: 1) to proceed with the EU budget in the same way in which is proceeded in the case of the private budgets: firstly to establishing the revenues, and secondly to establish the expenditures, so the budgetary balance be got; 2) to introduce a redundancy, as the national contributions based on GNI, to get such a budgetary balance. As it is known, the second solution was been adopted and is working today;

b. the traditional own resources of the EU budget are depending on the own economic (business) cycles in the member states, so it is very difficult to have a credible prediction of the EU budget revenues, especially when the multiannual financial framework (MFF) is spread over seven years, as today;

c. if the traditional own resources of the EU budget are justified be transferred to the this budget, the national contributions based on the GNI has no justification at all. Indeed, regarding the traditional own resources it can be shown that such resources are obtained due just to the fact European Union belonging[3], so the simple fact of such a belonging justifies the „right" of the EU budget to ask such contributions as „invoice" for the very obtaining of the traditional revenues. But, instead, regarding the national contributions based GNI, no impact of the belonging of the member states to the European Union can be found or, at least, no such an impact can be evidently proved;

d. in fact, the most of the dissensions among the member states regarding the revenues system for the EU budget are really generated around the above considerations.

Starting from these observations we'll pass to propose a solution in the matter.

4. A possible solution: a single European tax (SET)

The way in which we want to find the solution is based both on the statu quo above described and to intention to give more logical bases on the revenues system of the EU budget.

4.1. The goal

The goal of the proposal is to find such a system and institutional mechanism to provide revenues to the EU budget so the principles of an economically integrated system like the EU be verified. More specifically, the paper will propose a single tax – named single European tax (SET) – which should feed the EU budget.

4.2. The criteria

In order to find such a SET, of course, a previous set of choosing criteria must be established. In our opinion, the required criteria should be the followings six:

1. (B) the *belonging criterion*: the SET must be based on the a direct and provable effect/impact of the EU existing, that is, an effect/impact of the EU functioning as a regional system of economic, social, and institutional integration. So, such a criterion should „extract" the very

[3] Maybe less evident in the case of WATT, but this resource accounts of only about 0.3% from all the VAT value collected by the member states.

economic or financial effects of the European integration system functioning from all the general economic or financial effects which generally happened in the member states;

2. (P) the *stability* criterion: the SET must have stability in time. By stability associated to the SET we understand a structurality property of the SET, that is, the SET must address both the economic/financial structure[4] of the EU as a whole, and the economic/financial structure of the member states;
3. (S) the *sustainability* criterion: alongside of the belonging criterion, this one is the most important (and relevant). It means the using of the financial transfer from the member states to the EU budget do not compromise the potential of the member states to continue such transfers in the future. In other words, the criterion ensures about the replication sine die of the financial feeding of the EU budget. Of course, the criterion requires simply that the tax base on which the SET is designed is reproducible very because the SET is transferred;
4. (D) the *provable* criterion: the SET must can be assigned to official statistical registration data, both at the EU level and at the member states level, so avoiding possible disputes regarding the unfair distributions of the fiscal charges among the member states;
5. (E) the *equity* criterion: the SET must be such a way designed as it does not can distort the national contribution the EU budget related to the official establishment in the matter. For example, it must be avoided that the tax base migrate among the members states or, worse, outside of the European Union;
6. (T) the *translational* criterion: the most of the economists involved in the debates regarding a new system of own resources of the EU budget, fall agree the question must be examined packaged with the expenditures philosophy. In our opinion, such a (compulsory) link between the SET and the new philosophy of spending the EU budget is embedded very by the criterion of the translationality of the SET, that is, the structure of the expenditures must has as fundamental target very the economic/financial conditions to ensure the own resources based on the SET.

Figure 2 synoptically shows the way in which the set of criteria above proposed could ensure to find the most appropriate SET for reforming the current system of own resources of the EU budget.

[4] That is, not the simple functioning, being known that the structure has two crucial properties in any system: 1) preserve the systems' identity, so has the potential to ensure the qualitative stability; 2) generates the systems' functions (outcomes, outputs), so has the potential to ensure the quantitative stability.

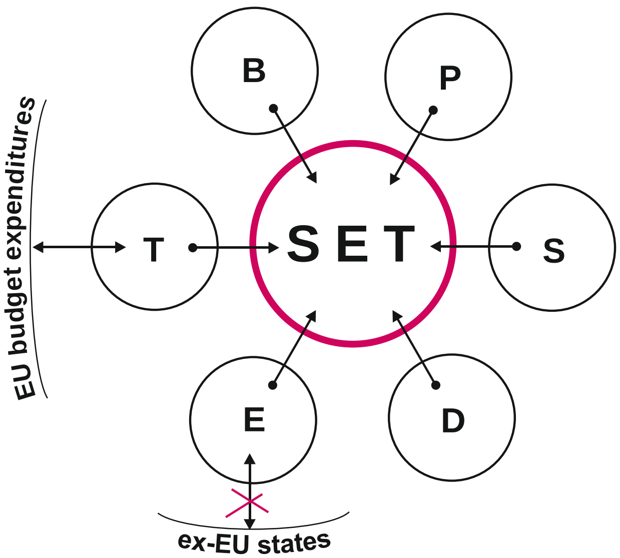

Figure 2. *The criteria set to establish the SET*

4.3. The proposal

As result from above, based on the six criteria which must be simultaneously verified[5], now we have to propose a SET to play for the revenues system of the EU budget. For such a task, a little bit extra reasoning is needed.

As said before, the two fundamental targets for using the EU budget are: a) achieving the cohesion stance in EU (C)[6]; b) producing the European public goods (EPGs). If so, then the SET to be proposed must ensure that, by using the EU budget instrument the two targets are reached. The problem is that, while the first target is depending rather from the member states policies and resources, the second is depending rather from the EU as a whole. Since it is not possible to simply split the two targets, so only the second one stay for the EU budget, while the first one be thrown into the court of the member states, we will make the following preparative considerations:

- even if the first target mentioned seems to be under the auspices and at the hand of the member states, in fact the situation is not very so, the member states are functioning under the EU institutions and is presumable this influences (rather more than less) the own economic activity of the member states. So, it is difficult, both theoretically and empirically to separate the own „merit” of the member states from the „merit” of the belonging to EU in achieving the first target;
- the second target, in its turn, is indeed achieved because belonging to the EU, but, at the same time, it must be viewed that the EU efforts to produce the EPGs are possible to be implemented and to get success only within the national framework of institutions, culture, resources, etc. So, again, it is difficult to operate the separation of the own efforts of the member states from the European institutions, efforts, and resources.

In such a framework, by assuming the impossibility to accurately discern between the two necessary financial efforts assigned to the two targets, we think the SET should be designed in the way as follows:

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[5] So, we must have a logical conjunction of them: $SET \rightarrow B \wedge P \wedge S \wedge D \wedge E \wedge T$.

[6] With its three components: economic, social, and territorial. The main process involved here is the real and nominal economic convergence.

i. the amount a member state due to the EU budget must be inversely proportional with the gap between its real economic convergence stance and the benchmark of the real economic stance of the EU[7]; Why directly proportional? Because the efforts of the member states (including their capacity to benefit from the belonging to EU[8]) must be rewarded, and this reward is the very decreasing of the fiscal charge to EU budget;

ii. the decision to apply this fiscal facility should be taken after the maintaining of the course of reducing the real economic convergence gap for two years consecutively. This methodological precaution is required in order to not award an accidental trend, that is reversible and could be not due to the very efforts of the involved member state;

iii. symmetrically, if for two years consecutively, the reverse process, of increasing the real economic convergence gap, arises, then the decision to increase the fiscal charge will be done correspondingly;

iv. the EU budget will continue to be established according to the public budgets philosophy, that is, by establishing first the expenditures needed, and then the revenues;

v. a crucial question arises now: at what level should be established the EU budget revenues, once its expenditures were established? So far, the national contributions based on GNI were established so the EU budget be balanced, so by collecting from the members states the difference between the expenditures amount and the traditional own resources amount. The problem if the EU budget should allowed be balanced is a problem per se and it does not be approached in this paper, so we conduct the discussion further in the hypothesis that the EU budget must be always balanced;

vi. in the hypothesis above mentioned, it results the EU revenues will be established at the level of covering all the expenditures programmed[9];

vii. the entire amount of the needed revenues will be, then, distributed on the members states. This distribution will address the GDP, not the GNI, as currently. This proposal is based on the following considerations:

   - the GDP base for the national contributions currently in use is not compatible with the traditional own resources system because it contains the VAT, which is an indirect tax, that it is included also into GDP[10]. This is the reason to use, today, the GNI instead GDP, else it would be a double taxation;

   - since GNI include the subsidies granted by the state, it results the member states are today penalized for granting such subsidies. Such an issue is very disputable, but as result of our proposal that GDP replace GNI, it has no anymore relevance[11].

viii. The amount of every member state will be formed based on the following „algorithm”:

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[7] Of course, here comes the need to establish such criteria of the real economic convergence (similar with the criteria for the nominal economic convergence in the Maastricht Treaty), which should be introduced into the Treaties of EU.

[8] For example, to access the European cohesion and structural funds at the level established by the EU budget of the multiannual financial framework (MFF).

[9] Of course, such an analysis will be done annually, although the annual EU budget is part of the MFF.

[10] As it is known, $GNI = GDP - I_T + S$, where I_T stays for the indirect taxes, and S stays for subsidies. In other words, GDP is expressed in market prices, whilst GNI is expressed in factors cost.

[11] Its relevance remains, of course, within the possible polemic regarding the replacing of the GNI by the GDP.

- 50% of all the expenditures planned is covered by the member states proportionally with the weight of their GDP in the total GDP of the EU
- 50% of all the expenditures planned is covered by the member states based on the real economic convergence gap as described below.

4.4. A brief qualitative analysis

Let us make some notation in order to formally clarify our proposal above mentioned.

➢ Notations:

- y_i^j: the GDI of the member state i in year j
- Y^j: the GDP of the EU in year j
- REC_i^j: the indicator of the real economic convergence of the member state[12] i in year j
- REC^j: the benchmark, at EU level, of the indicator of the real economic convergence[12] in year j
- E^j: total amount of EU budget expenditures planned for year j
- R^j: total amount of EU budget revenues needed in year j, in a balanced EU budget hypothesis
- g_i^j: the gap of the member state i in year j regarding the real economic convergence indicator
- S_i^j: the solidarity component of the national contribution to EU budget of the member state i in year j
- S^j: the solidarity component of the EU budget in year j
- C_i^j: the cohesion/convergence component of the national contribution to EU budget of the member state i in year j
- C^j: the cohesion/convergence component of the EU budget in year j
- αs_i^j: the coefficient of distribution of the fiscal charge of the solidarity component for the member state i in year j
- αc_i^j: the coefficient of distribution of the fiscal charge of the cohesion/convergence component for the member state i in year j
- Σ_i^{j-1}: the amount paid by the member state i in year $(j-1)$
- Σ_i^{j-2}: the amount paid by the member state i in year $(j-2)$
- $\bar{\Sigma}_i^j$: the average[13] of the amount paid by the member state i for years $(j-1)$ and $(j-2)$

[12] As mentioned above, here is required a special methodology to be elaborated.

[13] To be observed, based on the way of calculus, we have to do, in fact, with the mobile average.

- $\bar{g}_i^j$: the average[13] of the gap of real economic convergence of the member state i for years $(j-1)$ and $(j-2)$

➢ <u>Formulas</u>:

- $Y^j = \sum_{i=1}^{27} y_i^j$
- $g_i^j = REC_i^j - REC^j$
- $E^j = R^j$
- $S^j = 0.5 \cdot E^j$
- $C^j = 0.5 \cdot E^j$
- $S^j = C^j$
- $\bar{g}_i^j = \frac{g_i^{j-1} + g_i^{j-2}}{2}$
- $\alpha s_i^j = \frac{y_i^j}{Y^j}$
- $\alpha c_i^j = \frac{g_i^j - \bar{g}_i^j}{\bar{g}_i^j}$

➢ <u>Fiscal charge establishing of the member states</u>

- *the hypotheses:*
  - ✓ because the two years which must be taken into account in order to establish the cohesion/convergence component of the national contributions of the member state to the EU budget, we consider that in year $(i-2)$ and $(i-1)$ the EU budget was balanced
  - ✓ in the same time, we can calculate the gaps of the members states against the EU benchmark for the real economic convergence
  - ✓ so, the change of the national contributions based on the cohesion/convergence component will be operated on the amount of such contributions occurred in the two years previous of introducing of the new system of the EU budget[14]
  - ✓ in such a way, it seems the EU budget could become unbalanced, but this issue will be not approached in this paper. Any case, the two years of calibration of the new system of the EU budget revenues take into consideration a balanced EU budget
- *the calculus*
  - ✓ $S_i^j = S^j \cdot \alpha s_i^{j-1}$
  - ✓ $C_i^j = \bar{\Sigma}_i^j \cdot (1 + \bar{g}_i^j)$
  - ✓ $\Sigma_i^j = S_i^j + C_i^j$

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[14] It seems that, within the new mechanism of the EU budget revenues is out of sense to talk about own resources of the EU budget. In fact, never the EU budget revenues were not „own resources" in the proper sense of the words.

5. Some conclusions

The possible implementation of the new system of the EU budget revenues has some main consequences (without to talk about the methodological procedures needed):

(a) no revenue can be further considered as own resources of the EU budget; all revenues represent national contributions of the member states;

(b) the EU budget cannot be anymore compulsorily balanced, which can have, in fact, a positive effect of the fiscal affairs of the EU, namely the possibility of budgetary interventions of the EU in countries or regions where is needed such supra-national interventions. This fact is in line with the current tendencies to build a Fiscal Union in EU;

(c) the new system of EU budget revenues will much more stimulate the real economic convergence of the member states, which is the final end of the Union;

(d) the principle of solidarity in EU is much more implemented by the new system of the EU budget revenues.

Selected bibliography

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3.