

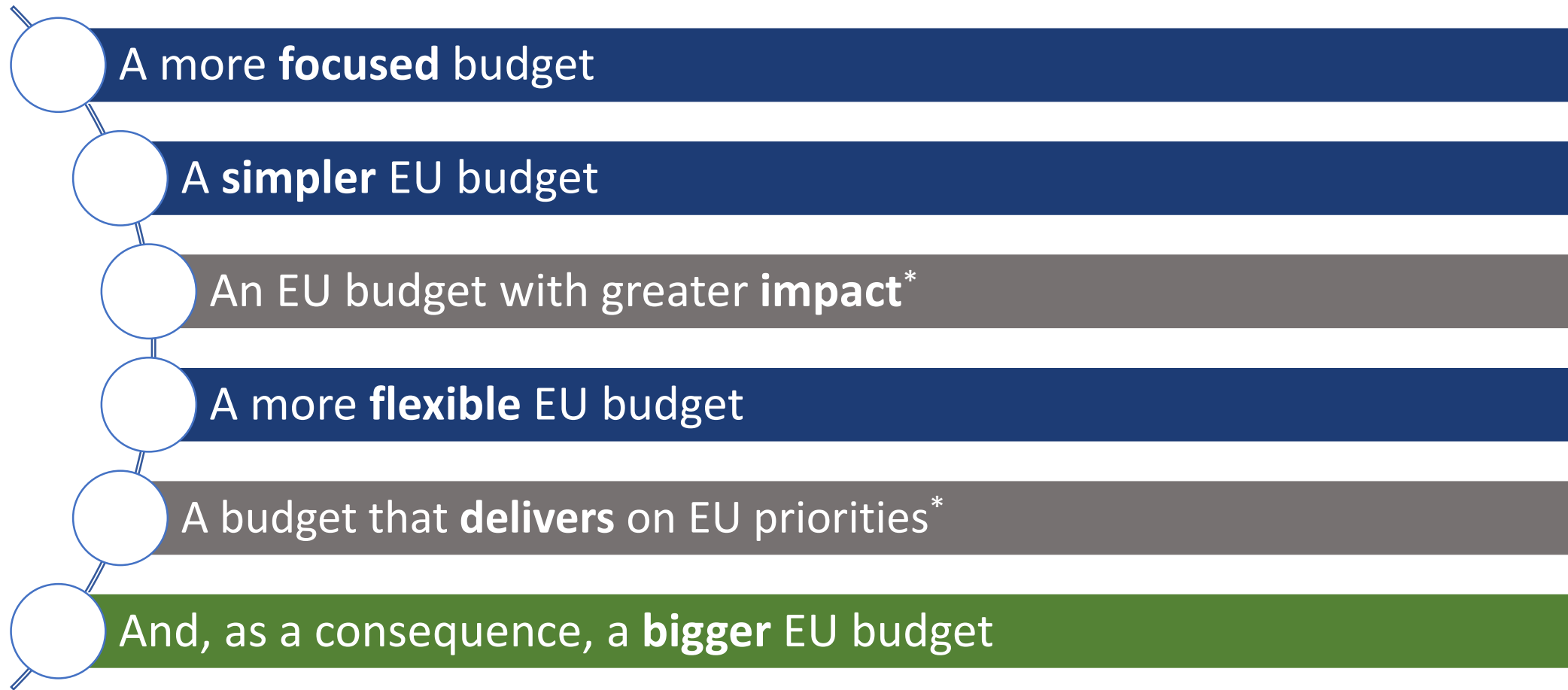
European Public Goods in the next Multiannual Financial Framework

Financing the EU in a decade of reform

Dr. Michael Thöne (FiFo Managing Director/CEO)

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Topics covered – organised according to the Communication from the Commission ‘The Road to the next MFF’ ([Feb 2025](#)) and the



* This short presentation does not cover ‘impact’ and ‘delivery’. This is purely for the sake of brevity. Both are, in this author's view, very important objectives for the reform of the EU budget. .

European Public Goods in EU Strategic Agenda 2024-2029 and in the 2025 COM-Communication “Road to the next MFF”

‘A more focused budget’

Both, the Council’s EU Strategic Agenda 2024-2029 (2024) and the Commission’s Communication ‘The Road to the next MFF’ (2025), are closely linked to European public goods (EPGs).

In the theory of fiscal federalism, **European Public Goods** are delineated by a set of economic criteria (spatial externalities/spillovers, economies of scale, homogenous preferences).

By putting these criteria into practice, the **important EPGs relevant for the budget/the MFF** are:

- Security, defence and military procurement
- Digital / technological sovereignty; competitiveness
- Foreign policy
- Asylum and refugee policy, immigration
- Development cooperation

- Climate action/environmental sustainability
- Research and development (large projects)
- Health and pandemic preparedness
- Infrastructure and connectivity / Trans-European networks
- European fiscal equalisation

'A bigger budget'

'A simpler budget'

- The financing for EPGs is difficult to quantify. **Budgeting starts with new EU tasks, not with the money.**
- ECB researchers (2024): Central EPGs need € 900bn additional EU funding in 2025-31.
- This would require the annual EU budget to grow **from 1,1% to 1,8% of EU GNI.**
- With a view to **all EPGs**, Felbermayr and Pekanov (2024) estimate an increase of **up to 4% of EU GNI.**



- Only a small amount of resources can be freed up by **reducing tasks with limited EAV.**
 - Freezing the **CAP** will take time.
 - **Cohesion policy** can and should be streamlined and re-focused. But at heart it remains an **EU fiscal equalisation scheme.**
- **Providing EPGs = 'administrative federalism':**
 - EU decision-making and EU financing
 - But implementation will need to be shared with/delegated to MS, including the need for **MS to co-finance EPGs.**
- We estimate that the EU budget needs to grow to **3% of EU GNI.** (Depending on how much the US let NATO down on European security.)

'A simpler budget'

- **Federal Europe is unlike the USA.** If the EU is to deliver more EPGs, it needs intensive vertical cooperation and separate standards for the **three competences**:
 - Decision-making,
 - Administration,
 - Financing.
- **Full fiscal equivalence** – i.e. all *all three* competences for the EU – is notably **rare**.
- In many policy fields more probable: **Administrative federalism**, i.e. EU decision-making and EU financing, but **implementation on the national and regional level**.
- Ensuring vertical governance based on **causal connectivity** is crucial: **“Who orders, pays”**.
 - This makes the case for a **bigger EU budget**.
 - But the causal connectivity is just as important as a **means of shielding the lower levels** from having to implement demanding policies without receiving adequate funding.

For more details on how to provide and finance the different European public goods in a multi-level system, see the concept paper '[Public Goods in a federal Europe](#)'.

Another round of „New and fresh“ ideas for own resources?

‘A bigger budget’

Corporate and trade	Financial sector and ‘digital economy’	Climate and Environment	Statistics-based MS contributions	Wealth and Others
Apportionment of CIT based on the BEFIT rules	Excise duty on share buybacks	Agro-ecological taxes	Gender pay gap-based own resource	Wealth of (ultra) high networth individuals
EU ‘fair border mechanism’ against ‘social dumping’	Taxes on crypto-asset activities	Taxation of aviation	Waste beyond plastics packaging	PIT exit taxes for EU residents moving abroad
Broad border tax on undertaxed profits	Digital levy / tax on data traffic	Electricity tax	Biowaste-based OR; Hazardous waste OR; Food waste-based OR	Exit taxes on wealth and/or inheritances
	VAT on financial services	EU road transport fuel tax (surtax)	Other OR in social / environmental areas	Gambling and/or tobacco (surtax)

- Some of these proposals deserve close scrutiny against the **established criteria**.
- Yet, for doubling the EU budget, **searching for ‘untapped’ niche tax sources won't suffice**. A strong EU budget must be based, at least in part, on a broad tax base that taps on one or both of the main macroeconomic streams: **income and consumption**.
- E.g., an **EU VAT** of 1% (possibly replacing 1 %-point of the MS) could generate up to € 60 billion/year.

The Four Revenue Pillars of a Future EU budget

'A bigger budget'

1. Traditional OR with strong, possibly even **increased GNI-based own resources (OR)**;
2. **Genuine OR** in the form of surtaxes or tax shares linked to **income and consumption**;
3. A bundle of **smaller, new OR** that qualify under the established criteria;
 - Including OR based on emissions trade, on the CBAM, and a temporary statistical OR on corporate profits.
4. **EU debt** according to the famous 'golden rule'.
 - From a long-term macroeconomic perspective, that includes investments in public infrastructure, climate action, green transition, digital and technological sovereignty.



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Making the MFF structurally more fit for providing EPGs

'A more flexible budget'

- The current seven-year MFF has is too rigid for reactions to a quickly changing world.
- With more EPGs, the **political nature** of the EU's tasks increases, and with it the **need for more flexibility**.
- The gradual build-up of the EPGs requires **more annual budgeting**. The budget must grow substantially and flexibly over the seven years of a MFF.
- With new ORs, for which it is directly accountable to taxpayers, the need to fix spending for 5-7 years in advance becomes less important. Tax-based financing creates strong **democratic incentives for fiscal discipline**.
- Especially when combined with a regime that permits public debt only in accordance with clear and sustainable rules.



Thank you!

This presentation is an updated and extended version of a presentation given at a workshop of the Budget Committee of the European Parliament on 7 November 2024. It is based on Michael Thöne's papers:

- 2024: [European Public Goods and the 2028-2034 Multiannual Financial Framework: Financing the EU in a decade of reform](#). In: European Parliament Committee on Budgets (ed.): Some key themes for the post 2027 Multiannual Financial Framework, Brussels.
- 2024: [The Fiscal Architecture of the EU Cohesion Policy, ZEW Discussion Paper No. 24-038](#). [Auch in [Deutsch](#).]
- 2021: [Public Goods in a federal Europe. Vision Europe, Paper 4; Bertelsmann Stiftung](#). [Auch in [Deutsch](#).]
(With Helena Kreuter.)
 - [Policy brief](#) for this paper. [Auch in [Deutsch](#).]
- 2020: [The Rocky Road to Providing Public Goods in the European Union. Vision Europe Paper, Bertelsmann Stiftung](#).
(With Katharina Gnath and Thomas Wieser.)
- 2020: [European Public Goods. Their Contribution to a Strong Europe. Vision Europe, Paper 3; Bertelsmann Stiftung](#).
[Auch in [Deutsch](#).] (With Helena Kreuter.)
- 2020: [New Models for Europe's Future. Scoping of Tasks and Approaches. Vision Europe, Paper 2; Bertelsmann Stiftung](#).
[Auch in [Deutsch](#).] (With Helena Kreuter.)
- 2016: [The Future of EU-Finances, edited by Thiess Büttner and Michael Thöne](#), Beiträge zur Finanzwissenschaft 34, ISBN 978-3-16-154656-3, Mohr Siebeck. [Auch in [Deutsch](#).]