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General rationale for an EU budget and the cohesion policy as a segment of it

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General rationale for an EU budget and the cohesion policy as a segment of it

Abstract

The European Union is one of the major economic integration blocks in the world economy. Nevertheless the EU has been the only economic integration block in the world up till now, where a redistribution of a part of the integration block's aggregate GNI takes place across the participant countries. Moreover, none of the other economic integration blocks in the world economy has a declared goal or even a vision for the future to establish a redistribution of its members' GNI in one or another way, similar to that taking place in the EU. In this sense the EU has been and remains a unique institution. This makes an analysis of the intra-EU cross-Member State redistribution an extreme challenging task. You can analyse the budget and thus redistribution of incomes exercised by a state in the context of other states, that of a city or a community in the context of comparable cities and communities. For the European Union there is no definite benchmark, there are no players in the same class for comparison.

Content

1 Introduction

The European Union is one of the major economic integration blocks in the world economy. Nevertheless the EU has been the only economic integration block in the world up till now, where a redistribution of a part of the integration block's aggregate GNI takes place across the participant countries. Moreover, none of the other economic integration blocks in the world economy has a declared goal or even a vision for the future to establish a redistribution of its members' GNI in one or another way, similar to that taking place in the EU. In this sense the EU has been and remains a unique institution. This makes an analysis of the intra-EU cross-Member State redistribution an extreme challenging task. You can analyse the budget and thus redistribution of incomes exercised by a state in the context of other states, that of a city or a community in the context of comparable cities and communities. For the European Union there is no definite benchmark, there are no players in the same class for comparison.

2 The two faces of the EU budget: shared sovereignty and cross-Member State redistribution

2.1 Shared sovereignty

If we try to define the extent of the budget of the European Union we may apply two different approaches. The first approach has the issue of *sovereignty* in focus. Each Member State renounces of a part of its GNI and pays it in the Community budget. Currently this amounts to about 1% of the EU GNI. The sum collected will then be allocated to individual Member State along the various European policies. Theoretically this should not necessarily mean *redistribution* of resources across Member State. In the hypothetical case each Member State received transfers from the EU budget amounting to about 1% of its GNI the only issue to be discussed would be the following: who (the EU or the Member State) will decide about the targets and modalities of expenditures amounting to 1% of a Member State GNI?

In real life we see a shared sovereignty. Individual Member States do not possess of this 1% in the sense that a Member State's legislation may earmark spending targets and allocate money to it. Allocation, along various European policies, will be decided upon by the European Council in the framework of the Multi-annual Financial Framework (MFF).[1] But this is a body where each Member State has the right to participate and influence the decisions on the European policies to be applied and indirectly about the size of redistribution through the EU budget a well. In the case of extreme differences of opinions any Member State may veto the EU budget. But this right of the Member State to influence size and spending philosophy and practice of the EU budget can be exerted once in every seven years.

What regards sovereignty, the fundamental question is how much of it the Member States are ready to delegate from individual Member State competency to the EU level. Theoretically the EU, as allocator of resources, could possess over a much higher share of the Member State GNI than the current 1%. Change in shared sovereignty is about competencies, not about redistribution of resources across Member States. Smaller or bigger EU competency could leave net financial positions unchanged and principally it could occur with zero net financial positions, where each Member State receives as much transfers form the EU budget as its contribution to the budget, 'only' the allocation

[1] In a second round of the decision-making process also by the European Parliament.

of these resources across spending targets within the Member State concerned would be delegated to EU level. A considerable extension of the EU budget in this sense would involve the delegation of complete areas of public finance from Member State to community level, which is very far from the current practice and would be compatible only with a vision of a federally constructed 'United States of Europe'.

2.2 Redistribution of income

The other approach addresses the *redistribution of income* across Member State. While each Member State contributes to the community budget by about 1% of its GNI, net contributor Member States receive, in terms of transfers, less than their contributions: only 0.6% to 0.8% of their GNI (the paid in 1% diminished by their net financial position) . Net beneficiary Member State also contribute about 1% of their GNI to the EU budget, this group of countries receives transfers from the community budget amounting to 1.06% to 4.88% of their GNI (the paid in 1% supplemented by their net financial position) .[2]

It is important to underline that redistribution of the EU GNI across Member State is not an explicit target of the EU budget, rather it is the consequence of parameters of individual European policies, predominantly that of the cohesion policy. No Member State can put forward a proposal, that the expenditures form the EU budget should amount to a certain sum, and within this sum the proportion of cross-Member State redistribution should be so and so high. What individual Member States can indeed do is to put forward recommendations for the European policies focusing on eligibility criteria, propose a cap on overall expenditures paid from the EU budget and hope to convince sufficient number of other member states to support the initiative. A fine calibration of these two items indirectly determines the overall size of and the extent of cross-Member State redistribution in the EU budget.

3 The relation between the EU budget and Member State budgets

In lack of a theory of budgetary relations between the EU and its Member States, an attempt will be made here for testing this relation with the help of the toolkit elaborated by the OECD for measuring fiscal decentralization.[3]

As the introductory section of the above cited OECD paper argues, there is no consensus in the international literature on the taxonomy of intergovernmental grants.[4] In the OECD analysis the emphasis is put on the relation between the central government budget (CG) and the sub-central constituents of federal countries (states, Länder, provinces, regions, etc.) or the central government budget and local governments in unitary countries (without a federally structured state).

In the following exercise the European Union and its budget appears in the role of the central government and the Member State in the role of the secondary (lower) level of government. It must

[2] Estimations by the Ministry of Finance, Austria about the net financial positions of Member State in the next MFF 2014-2020. MFF 2014 bis 2020 presented by Edith Peters at the FIW seminar 14.02.2013.

[3] OECD/Korea Institute of Public Finance (2013), Measuring Fiscal Decentralization: Concepts and Policies, OECD Fiscal Federalism Studies, OECD Publishing. *http://dx.doi.org/10.1787/9789264174849-en*

[4] For references see Rodriguez-Pose, A. and Ezcurra, R. (2010) Is Fiscal Decentralization Harmful for Economic Growth? Evidence from the OECD Countries, Journal of Economic Geography; Baskaran, T. (2010) On the Link between Fiscal Decentralization and Public Debt in OECD Countries. Public Choice, 14; and Martinez J.-V. and Timofeev A. (2010) Decentralization Measures Revisited. Public Finance and Management, 10.

be seen that this is a formal issue, since there is no any state in the world where 1% of the GNI is redistributed through the central government budget and 99% through regional/local governments. But we have to bear in mind that the while the EU bears some features of a state, it is definitely not a state, and its budget finances only a fragment of the tasks (except for subsidization of agriculture) which typically belong to the competence of central government budgets.

3.1 Taxing power

In its taxonomy the OECD distinguishes 13 grades of taxing power, based on to what extent taxing power is shared between the central government (CG) and the sub-central government (SCG) level(s) over tax rates, tax bases and tax sharing arrangements.

In terms of taxing power the EU, in the quality of a CG, is nearly non-existent. Of the 1% GNI collected by the EU budget only the traditional own resources[5] can be considered as own tax income of the EU. This component amounted to 13.2% of the EU budget revenues (or 0.13% of the EU GNI) in the period 2007-2011 in average. According to the OECD taxonomy the traditional own resources component is a tax sharing arrangement, as the CG (the EU) collects the tax, but a fixed part (20% of the total from January 1, 2014) of the collected sum is left at the SCG (Member State) level to cover the costs of tax collection.

Despite the misleading name, the VAT-based own resources (20.2% of the total in 2007-2011, average) have no relation with real VAT revenues in the Member State, these latter serve only as a starting platform for complicated calculations where at the end a practically GNI proportional item emerges.[6] The biggest component of EU budget revenues, the GNI based contributions by Member States amounted to 66.6% of the total in 2007-2011 (average). This component, and practically the VAT-based contribution as well, incorporate a simple transfer from the Member State treasuries to the EU budget. It can be interpreted as a special Member State GNI proportional tax, where the individual treasuries of the Member States figure as subjects of the tax. What can we say about the sharing of taxing power between the EU and the Member State in this case? The SCG (individual Member States) have originally the power as part of the decision making process to influence the tax base and the tax rate, possible tax reliefs, details of the tax sharing, but once the decision is made (at the European Council and later approved by the EP in every seventh year) individual Member States have no longer any opportunity to change any of the details up to the decision on the next MFF seven years later.

The European Union has declared its claim for genuine own resources already in an early phase of the integration process and its first element, the ‘traditional own resources’, was introduced in 1971.[7] Genuine own resources would be a new tax to be collected in the Member State by the EU and would reach the EU budget without the intermediation of the Member State treasuries. Over the past decades a plethora of ideas was put forward how this tax should look like:[8]

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[5] Agricultural duties (up to 2008), sugar levies, customs duties.

[6] European Commission (2004) ‘Financing the European Union’, Commission report on the operation of the own resources system, TECHNICAL ANNEX COM (2004) 505 final, Brussels, 14 July p. 6.

[7] European Commission (1998), ‘Financing of the European Union’, Commission Report on the Operation of the Own Resources System, DG XIX, Appendix 1, Brussels, 7 October.

[8] See an overview of the discussion on the topic in Cattoir, Philippe (2004), ‘Tax based EU own resources: An assessment’, European Commission TAXATION PAPERS Working paper No. 1/2004, Directorate-General Taxation & Customs Union,

- Genuine VAT
- EU corporate income tax
- Personal income tax
- Taxation of energy
- Excise duties on tobacco and alcohol
- Transfer of seigniorage revenue
- Communication taxation
- Climate charge on aviation
- Tax on stock exchange transactions
- Withholding tax on interest income
- Tax on international financial transactions (Tobin tax)

Of all these ideas the last mentioned tax on international financial transactions came the closest to (partial) realization, as in the case of this tax affects seem the least visible for European citizens and costs are apparently borne by the financial institutions.

It is worth mentioning another solution, namely the sharing of an already existing tax revenue between the Member State budgets and the EU budget. In Germany revenue from the VAT, the personal income and the corporate income taxes and a withholding tax on interest and capital gains are all shared between federal, state and local government levels, in each case in different proportions.[9] Including a further (EU) level into one or more of these taxes would be technically (but not politically) a simple solution, at least in federally constructed states like Germany. In Member States with unitary constructed state the difficulties, both of technical and political nature, would likely be bigger.

How does the SCG (Member State) contribution to the CG (EU) budget, amounting to 1% of Member State GNI relate to internal allocation of tax collection between central and regional/local governments? Sub-central level tax collection in the Czech Republic, Slovakia was extreme low (0.4% and 0.8%) and not very high in Estonia, Hungary and Poland (4%, 2.3% and 4.1%)[10]. We see here the opposite one-sidedness than in the relation between the EU budget and the Member State budget, if it is interpreted as allocation between CG and SCG.[11]

The OECD terminology defines tax sharing as '*an agreement where tax revenue is divided vertically between central and sub-central governments as well as horizontally across sub-central governments….Often tax sharing arrangements contain an element of horizontal fiscal equilisation. Tax sharing has become a means to provide fiscal resources to sub-central governments while maintaining central control over fiscal aggregates.*'[12] As we discussed above, tax sharing

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DOC TAXAUD/2004/2007-EN; Schratzenthaler, Margit and Berghuber, Bernd (2007), Alternative Financing Sources for the EU Budget. Austrian Economic Quarterly 1/2007 pp. 34-50. and Sandor Richter: Seeking New Ways of Financing the EU Budget: on the Proposal of a European Tax on Foreign Exchange Transactions. Wiiw Research Report No. 345, January 2008, Vienna.

[9] Paul Bernd Spahn: Measuring decentralization of public sector activities: conceptual issues and the case of Germany. In: OECD/Korea Institute of Public Finance (2013) p. 93.

[10] 2005 data. Hansjörg Blöchliger (2013) Measuring decentralization: the OECD fiscal decentralization database. In: OECD (2013) p. 18. Table 1.2

[11] Federally organized states have different proportions: in Germany sub-central revenues amount to 10.2%, in Canada to 15.7% of the GDP of the countries concerned. Op.cit. p. 18. Table 1.2.

[12] Blöchliger (2013) p. 22.

arrangements play a subordinated role in the EU budget except for the small item left for covering tax collection costs within traditional own resources. In the European Union's budget the task of horizontal fiscal equilisation has been delegated to a category which is defined by the OECD as intergovernmental grants.

3.2 Intergovernmental grants

Intergovernmental grants (or transfers) provide SCG with additional financial resources, thus filling the gap between own tax revenue and expenditure needs. Conditions attached to intergovernmental grants are ranging on a broad scale from transfers that allow full autonomy for the SCG concerning utilization up to grants where central government retains strict control.[13]

The OECD database provides data for 25 countries in 2006.[14] While figures in individual countries wildly range (from 2% in Turkey to 34% in Korea) the average share of intergovernmental grants was 25.2% in per cent of total tax revenues in the group, or 8.6% of the group's aggregated GDP (unweighted average). Placing the EU budget into the role of an imaginary CG, intergovernmental grants (to Member State, or in this simulation to SCG) can be calculated as that share of the EU budget expenditures which equals to the contributions of net contributor countries to the EU budget less the transfers they receive, or the receipts from the EU budget of the net beneficiary countries less the contributions they pay into the EU budget. Figures in table 1 show, that in terms of share in economic performance of the EU, intergovernmental grants are negligible compared to comparable data of the individual OECD countries in the group of 25, ranging from 0.16% in 2006 to 0.27% in 2011 of the EU GNI. However, as the EU budget collects only about 1% of the EU GNI, the share of intergovernmental grants within the EU budget expenditures is high, in 2011 it amounted to one quarter of the total (in EU GNI terms 0.27% relative to 1.08%). This proportion is practically identical with the intergovernmental grants' share in total tax revenues in the 25 selected OECD countries in 2006.[15] (Nevertheless in 2006 the respective proportion of "intergovernmental grants" was lower, about 16%, see table 1.)

Table 1. Net distribution through the EU budget in seleted years

Net redistribution through the EU budget in selected years				
	1997	**2003**	**2006**	**2011**
EU GNI, € million	7,388,285	9,503,191	11,401,003	12,664,138
Net redistributed GNI across MS*	15,909	17,099	18,466	34,185
Net cross-MS redistribution in % of EU GNI	0.22	0.18	0.16	0.27
*Contributions of net payer countries to the EU budget less the transfers they received, or receipts of net beneficiary countries from the EU budget less the contributions they paid.				
Source: GNI: Eurostat, net redistribution: EU budget 2007 Financial Report, Annex 5 and EU budget 2011 Financial Report Annex 3; own calculations				

If we put the EU budget into the imaginary role of a CG, we can analyse how intergovernmental grants affect individual SCG financial positions. One group of the SCGs are winners, another group of

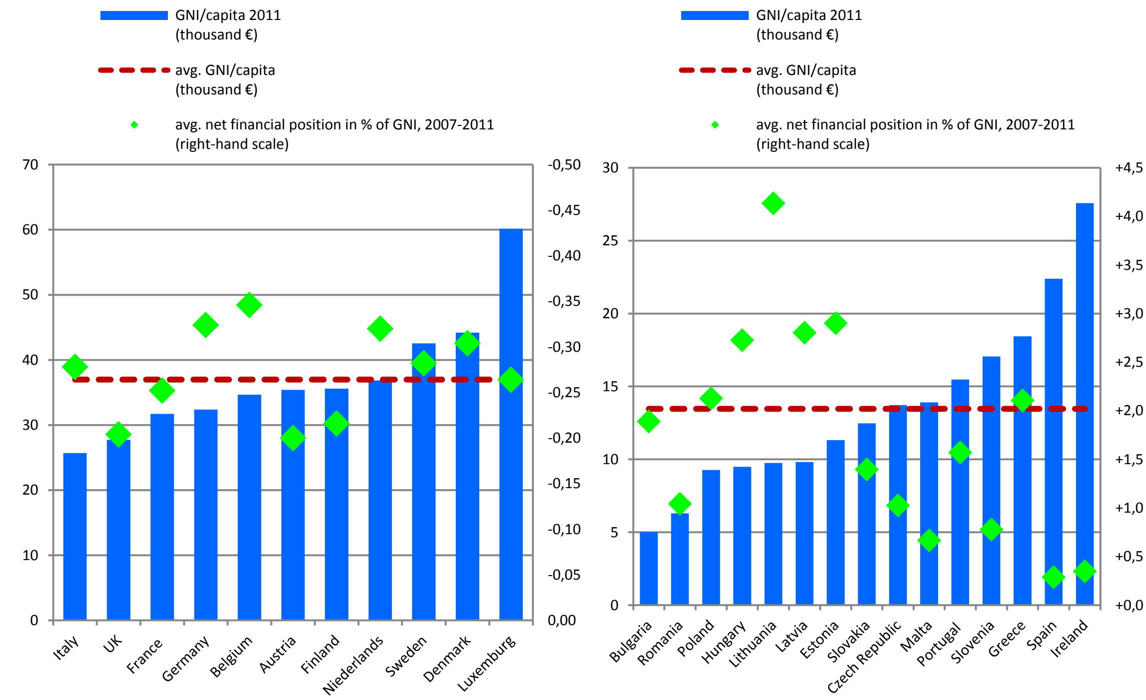
[13] Blöchliger (2013) p. 23.

[14] Blöchliger (2013) p. 18. Table 1.2.

[15] Blöchliger (2013) p. 24. Table 1.5

SCGs are loser of the process, certainly strictly from a fiscal point of view.[16] Net financial position of individual Member State give a clear picture about the relative significance of these grants/transfers for the Member State concerned.

Figure 1. Net contributor and net beneficiary Member States: per capita GNI and net financial position vis-à-vis the EU budget



Source: EU budget 2011 Financial Report, European Commission; Eurostat and own calculations.

3.3 Taxonomy of intergovernmental grants

There is a dividing line in the OECD taxonomy separating earmarked and non-earmarked grants. In the case of the EU-Member State relation there are only earmarked intergovernmental grants. This is sharply different from the average of 20 selected OECD countries where 49.5% of grants were non-earmarked at the primary level of sub-central government (state, province, region, etc.) and 47% on the secondary (local) level.[17]

Earmarked grants can be further divided into mandatory and discretionary grants, reflecting their legal background which stipulates their allocation.[18] In case of the EU budget expenditures, part of the CAP, namely direct payments to farmers and market related expenditures (33.8% of the total in 2011)[19] represent mandatory transfers, all other items fall into the category discretionary grants. In the group of the selected 20 OECD countries in average 2/3 of the primary level of sub-central government transfers were mandatory, at the secondary level 58%.[20]

[16] It would be misleading to limit the impact of cross-MS redistribution to the fiscal effects. Net contributor Member States gain in terms of expanded trade, FDI and other business opportunities.

[17] Own calculation based on Blöchliger (2013). p. 26. Table 1.6

[18] Blöchliger (2013) p.25.

[19] European Commission (2012): EU Budget 2011 Financial Report.

[20] Own calculation based on Blöchliger (2013). p. 26. Table 1.6

A further classification of the OECD distinguishes matching grants from non-matching ones. In the former case transfers are linked to supplementary SCG own expenditure, in the latter not. In the OECD sample average matching and non-matching grants are roughly on equal footing both within the mandatory and the discretionary grants. Contrary to that in the EU budget the mandatory transfers for farmers (direct payments) are completely non-matched, while cohesion policy, rural development and competitiveness expenditures are all fully matched transfers as national contribution is required in each and every project, to various extent.

Finally, the OECD taxonomy distinguishes grants for capital expenditure (investment) and grants for current expenditures. In the OECD sample within earmarked grants current expenditures made up 82.7% of total grants at the primary level of SCG and 60.7% at the local level. As the philosophy of the EU policies (except for direct payments) primarily supports development through investment and contribution to initial but not to permanent operational costs, current expenditures are assumed to play a substantially smaller role in the EU-Member State fiscal relations than in the CG-SCG relations in the sample OECD countries.

3.4 Spending power – the limits of autonomy

Sub-central governments' spending power is defined as the extent of control these can exert over the general government budget. That translates into calculating the share of SCG expenditure in general government expenditure (CG+SCG). Nevertheless disposal over the money is only a part of the whole story, as upper level government regulation must also be taken into consideration while evaluating SCG discretion over various budget items.[21]

Applying this approach to an imaginary federal state EU with the Member State as lower level constituents, the SCG level (the aggregate Member State budgets) amounts to about 45% of the EU GNI[22] and stands out with its overwhelming dominancy over the "federal" EU budget amounting to 1% of the EU GNI. The distribution across Member State is however fairly diverging, but even in the case of the best positioned net beneficiary Member State the relation of the resources from the CG (EU) budget to SCG (Member State) budget is about 1:10.

But spending power is more than simple arithmetic, and the EU's regulatory power goes ways beyond the scope of transfers.

3.5 Autonomy in regulatory terms

The OECD taxonomy maps SCG autonomy in regulatory terms in five different aspects.[23]

- *Policy autonomy:* are SCGs obliged to provide certain services? If we take Member State as SCG, we may argue that the EU does not prescribe explicit service delivery, but the Member State must comply with the EU's acquis communautaire, which may necessitate that certain services must be delivered. Non-compliance with fundamental values of the EU through not delivering certain services could trigger sanctions.

[21] Blöchliger (2013) p. 30.

[22] In 2011 general government revenue in the EU amounted to 44.6% of the EU GDP. European Commission (2012) General Government Data Table 29B Spring 2012.

[23] Blöchliger (2013). p. 31.

- *Budget autonomy:* to what extent do SCGs exert control over the budget? Member States as SCG have full control over their own budget, except for the extent of the fiscal deficit which is regulated in the Stability and Growth Pact and in case of non-compliance an Excessive Deficit Procedure is initiated. In the forthcoming 2013-2020 MFF repeated non-fulfilment of recommendations under the Excessive Deficit Procedure or the Excessive Imbalance Procedure may be sanctioned by suspension of a considerable part of cohesion policy transfers for the Member State involved.

- *Input autonomy:* to what extent do SCG exert control over the civil service like staff management and salaries and other input-side aspects of a service, e.g. the right to tender or contract out services? In staff management and salaries issues limitations for the Member State budget imposed 'from above' by the EU are non-existent. Nonetheless constraints are considerable in public procurement where the provision of an equal playing ground for potential domestic and other EU providers is a fundamental criterion of EU membership.

- *Output autonomy:* to what extent do SCG exert control over quality and quantity standards of services delivered? Here SCG autonomy is full in case of expenditures from the own budget but limited in the case of services delivered by CG (EU co-financed) projects, where the EU has the right to control whether the standards agreed upon in the preparatory stage of a project has been observed or not, and non-compliance may lead to sanctions like re-payment of the support received.

- *Monitoring and evaluation:* to what extent do SCG exert control over evaluation, benchmarking and monitoring? The SCG have full power what concerns its own expenditures, in the case of CG (EU co-financed) projects the CG (EU) rules for monitoring and evaluation overwrite the SCG rules.

While the CG resources are small in relation to SCG budgets, this money combined with the limitation of SCG autonomy deriving from the EU's regulatory power poses greater constraints to SCG autonomy than the 1% GNI proportional EU budget alone would suggest.

4 Complexity of the EU budget

In the section above where the OECD taxonomy was used to describe the characteristic features of the EU budget the expenditure side of the EU budget was featured as a monolith. However, the expenditures consist of very different components following diverging logic/philosophy.

4.1 Unitary state logic

Of the five main expenditure areas chapter 4 *Global Europe* and chapter 5 *Administration* (combined 12.5% of the total budget, 0.125% of the EU GNI)[24] are comparable to expenditures of a unitary state, with no interference from lower levels of government, here the Member State.

Chapter 2 Natural resources consists of two very different sections, called first and second pillar. The first pillar is *Market related expenditures and direct payments* (28.9% of the total budget, 0.289% of the EU GNI), the second pillar is *Rural development.* In the first pillar the EU follows the logic of a highly centralized unitary state, as the agricultural subsidies provided here are not matched with

[24] Here and in the next calculations data are from the 2014-2020 MFF as approved by the European Council on February 7-8, 2012. European Council (2013) Conclusions (Multiannual Framework) EUCO 37/13, February 8, 2013 Brussels.

lower level (Member State) contributions, moreover, any additional subsidies by Member State governments are strictly prohibited (based on competition policy considerations). Although specific transfers have been strongly diverging by Member State after the 2004 and 2007 enlargements, in the next MFF period the income gap of subsidy recipient will be radically smaller, imitating the equal treatment of 'farmer-citizens' in a unitary state. Direct payments reach the recipient farmers without interference by Member State fiscal authorities. The second pillar, *Rural development* follows another logic, see later .

4.2 'Redistribution fosters convergence' logic

MFF Chapter 1 *Smart and inclusive growth* consists of two constituents of fairly diverging nature. We address here sub-chapter 1b *Economic social and territorial cohesion* (33.9% of the total budget, 0.339% of the EU GNI). This is the area of the EU budget where cross-Member State redistribution deliberately happens, even if in an indirect way. No explicit target concerning the extent of redistribution is announced but the rules of the game are calibrated to reach a certain extent of redistribution which is acceptable for all Member States. For this purpose eligibility criteria are tailored to parameters of the typical recipient (Member State with less than 90% of the EU average development level; regions in Member State (with 75%, between 75 and 90% and above 90% of the EU average development level). The specific resources made available for the recipients are tiered digressively by prosperity of recipients regions. Cross-Member State redistribution is the consequence of the tiered eligibility criteria. Apart from the eligibility criteria a cap (also tiered by prosperity of the region concerned) on the resources available from this chapter helps to delimit the extent of cross-Member State redistribution 'from above'. Here matching of the EU transfers by Member State contribution is a must, and the extent of the Member State contribution (central or local budget, the recipient organization or enterprise) is also tiered by prosperity of the recipient Member State (and also by the type of the project to be financed).

4.3 'Best bidder takes all' logic

Sub-chapter 1a Competitiveness for growth and jobs has the third distinct logic among the parts of the EU budget (13.1% of the EU budget, 0.131% of the EU GNI). This is the chapter where available resources, earmarked for modernization (R&D, trans-European transport and communication networks) will be allocated for applicants proved to be the best in an unrestricted competition. Here unrestricted competition is the guarantee for cross-Member State redistribution, as highly developed Member State have far better record in getting project financing in this chapter than less prosperous Member State.[25]

4.4 Mixed logic

Rural development, the second pillar of chapter 2 *Natural resources* (10.0% of the total budget, 0.099% of the EU GNI) is an in-between construction where matching by recipient is required but the available resources are pre-set for the individual Member State and no exact eligibility criteria like those in the case of expenditures from the sub-chapter *Economic social and territorial cohesion* are applied. The purpose is modernization coupled with "greening"of agriculture and rural areas. This is also the field for equalization. First, co-financing rates are tiered by relative prosperity of the regions, second, discretionary expenditures for a couple of Member State are allocated here with the obvious

[25] Somai, Miklós (2013) EU-budget: less money less Europe? The new MFF seen from the New Member States' perspective. Unia Europejska.pl Nr. 1 (218) p. 15-17.

underlying purpose to amend the overall budgetary position of the Member State involved. While the main objective here is modernization, these expenditures do not fit the box with *Modernization logic* as the Member State envelopes in this sub-chapter are pre-fixed and there is no EU wide competition by applicants for these resources.

The resources for the Member State from chapter 3 *Security and citizenship* (1.6% of the total budget, 0.016% of the EU GNI) probably fits best into this box. Transfers from this chapter are of supplementary character, as the responsibility for the services to be provided in this field and the related financing of them are all in Member State competency.

5 Conclusions

The recent crisis has fundamentally changed the prospects of cross-Member State redistribution in the EU. In the wake of the crisis the long established budget of the EU will have to face new 'competitors'. In May 2010 two new financial support instruments were called into being: the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF). The developments following these decisions inspired the euro area members to make the existing support mechanism more robust and establish a permanent crisis resolution institution, the European Stability Mechanism (ESM).

The ESM will issue bonds or other debt instruments on the financial markets to provide assistance to Member States and will have a total subscribed capital of EUR 700 billion provided by euro area members. To put this figure into context: it amounts to 73% of the USD 960 billion total funds to be made available within seven years (2014-2020) via the next Multi-Annual Financial Framework (EU budget).

The crisis also opened a new chapter in fiscal governance issues within the EU. After the measures introduced for a stricter control of Member States' national budgets, the call appeared for the establishment of a new, proper fiscal capacity for the EMU. It is expected to provide sufficient resources to support important structural reforms in economies in distress.

That means that cross-Member State redistribution in the EU will most probably become larger and substantially more complex in the future than it is today. Planning and implementing large-scale changes in this field and assessing their possible impact may become easier through a better understanding of similarities and differences of the cross-Member State redistribution within the EU compared to the existing federal structures in EU Member States and other countries of the world.

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