“The Transparency of the EU Budget”
and
“Reform Options and the Common Pool Problem”
Reform options & the common pool problem

- Broad and important topic. Academic consensus that EU spending is not well allocated (not enough public goods). Can that be changed by reforming the revenue side? Model based analysis.

- Finding 1: Low public good spending can be explained by common pool problem and budget cap.

- Finding 2: Positive effects of reforms on the revenue side are possible:
  - **EU tax? Depends.** Only a solution if it is on a good that those benefiting the most from the current schemes consume relatively more of.
  - **A maximal net flow? Yes.** A cap works. Will have the same effect as an EU tax, without the problem of choosing tax.
The transparency of the EU-budget

• Standard-based assessment of framework: Does the EU-budget live up to the IMF code on fiscal transparency?

• Finding 1: The EU has a clearly enough defined framework for most aspects of the budget. Lives up fully to 27 of 42 criteria used (own estimation).

• Finding 2: The main challenges to EU budget transparency (only partly covered by the code) are:
  
  Complexity in all aspects
  
  Need to strengthen links between an overall perspective, the activities carried out and budget numbers.

• Interesting overview, but what would a wider definition of transparency and a more experience-based comparison give?
# The EU budget compared to the IMF code

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Reform options & the common pool problem

- Three alternatives proposed by the authors:
  1) Generalized correction mechanism
  2) Limited generalized correction mechanism
  3) European tax

- Starting point for 1) and 2) is the net balance. A good idea for several reasons. Possibility to “delink” expenditure discussion from national interests.

- Tax analysis also interesting. Could lead to less collective goods. Has other advantages.

- Main problem: Public goods and distribution often mixed up. Implies that neither one is handled in an efficient way.
The transparency of the EU-budget

• **Even though** the assessment is **correct** it gives a **too positive** picture of the transparency of the EU-budget.

• **Why fiscal transparency?** Higher quality economic policy decisions, Citizens can hold decision-makers accountable (IMF Manual on fiscal transparency).

• **What is transparency?**

  - **OECD Best Practices for Budget Transparency**
    “Transparency -- openness about policy intentions, formulation and implementation -- is a key element of good governance.”

  - **Cambridge Advanced Learner's Dictionary**
    “transparent adjective /.../
    2 clear and easy to understand or recognize:
    I think we should try to make the instructions more transparent.”
Clearer goals

- Clear goals are **needed for efficient implementation**. Many goals implies that the politicians abdicate.

- **Problem on different levels.** Overall – public goods/distribution. On program level – shown in audits.

- **Makes assessments** and audits **difficult**.
Clearer lines of responsibility

• Roles and responsibilities **singled out as one of the most problematic aspects** in the paper.

• **Redistributive spending**, e.g. cohesion, **could be given in lump-sums with national responsibility** for how it is spent, possibly in certain indicated areas.

• Ensuring that **public goods** are directed **towards added European value**: **Separating politics from administration**, for example European Research Council.
Politically relevant evaluations

- **Gap** between overall perspective and narrow sector perspective of evaluations and results information.

- **The Commission** carries out a lot of evaluations – but limited use in setting political priorities or choosing between options.

- Create a strong independent evaluation office? Board chosen on excellence. “Outsiders” involved. Free to ask any questions – also more political ones.

- **The ECA** has a role but is not an alternative. Focus on compliance. “Conservative”. Not enough resources if present governing structure is kept.
Transparency very important for the EU

• Lack of European arena with political opposition, effective media coverage and informed debate.

• Need for political initiatives – creating more transparency and accountability. Important for efficiency and survival.