

Fiscal Federalism Revisited – Implications for the EU Budget

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Two Generations of Fiscal Federalism Research

- 1st generation: Europeanize those policies for which
 - **preferences** are homogeneous
 - substantial **externalities** exist (which can't be internalized)
 - there is a potential of substantial **economies of scale**.

- 2nd generation: Incentives of politicians and bureaucrats in federal decision making
 - decision making by **regional representatives** (e.g. members of Council and EP)
 - **common pool disincentives** (dominance of policies with high salience in member states over „European Public Goods“)

Consequences for the EU budget: Spending money for the wrong purposes



CAP Pillar I:
278 bn €

AMIF 3.1 bn€



Cohesion:
325 bn €

Literature consensus (Alesina and Wacziarg, 1999; Sapir et al., 2004; Alesina et al., 2005; Heinemann and Begg, 2006; ECORYS et al., 2008; Ederveen et al., 2008): Fiscal federalism criteria would recommend a very different structure.

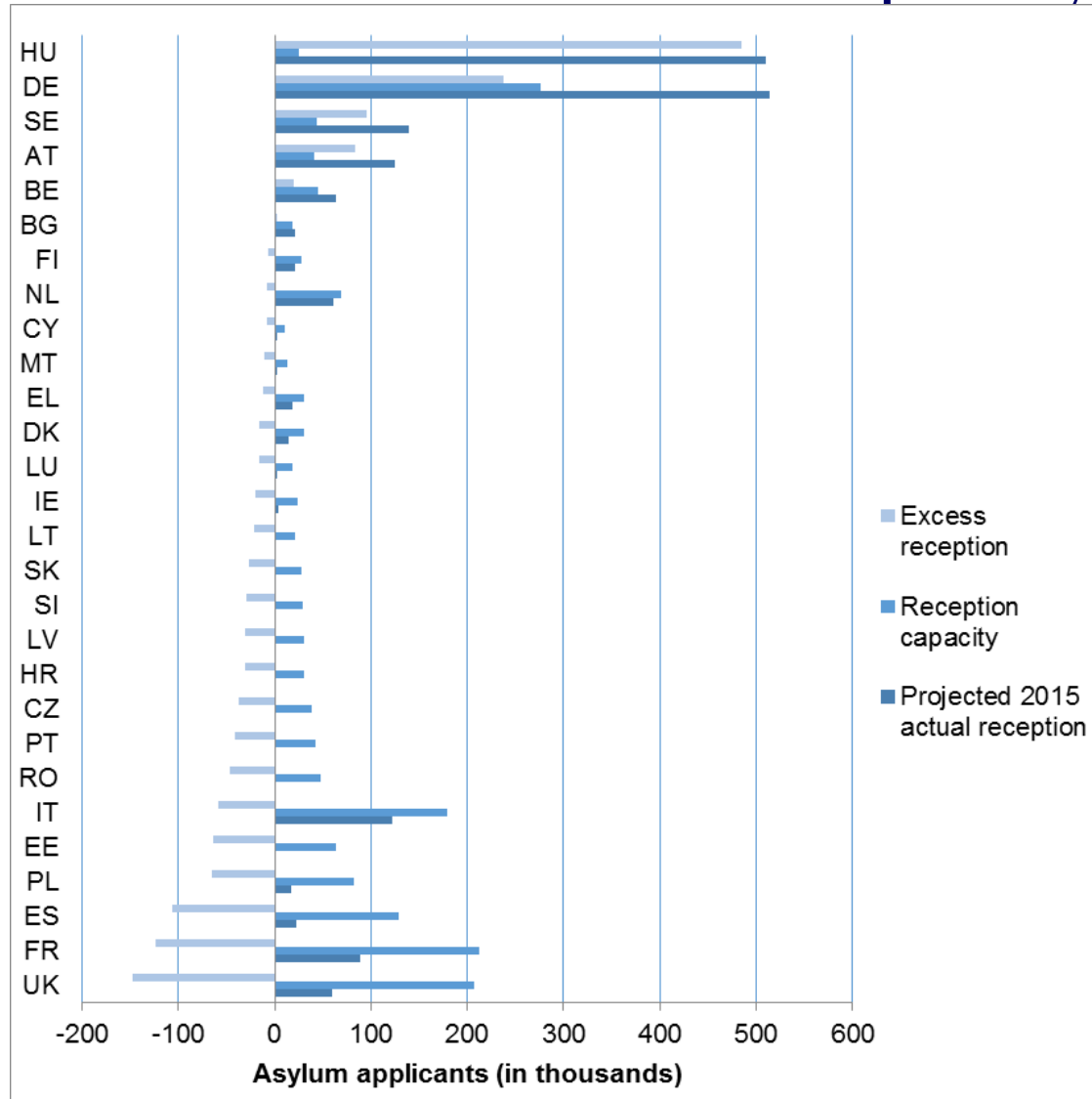


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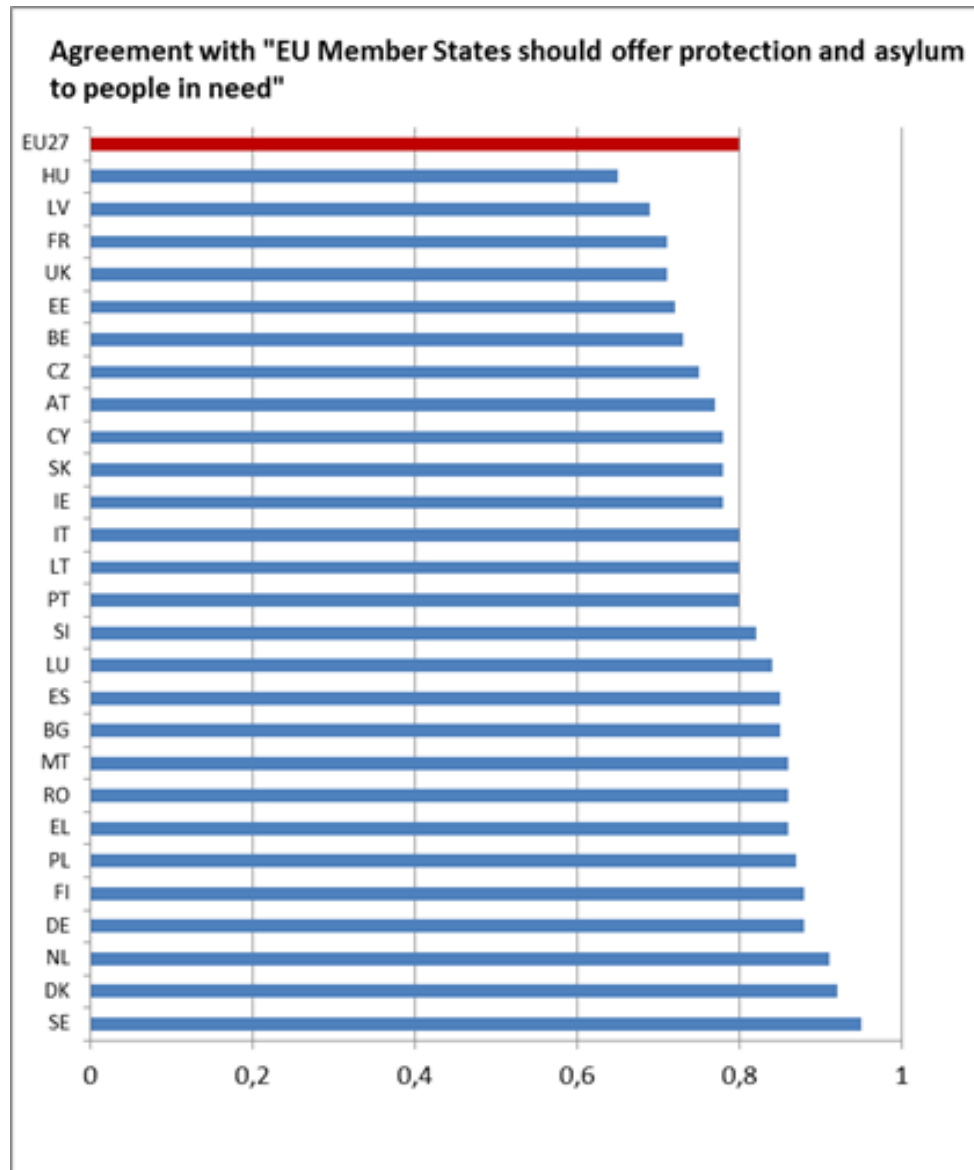
Case study asylum policies: A natural EU competency

- Massive externalities and resulting free-riding
- Preferences highly homogeneous (by definition as a consequence of joint values, international duties, but also population surveys prior to the recent crisis under the „veil of ignorance)
- Potentially high economies of scale

2015 Refugee reception: Actual numbers vs. capacity



Preferences: Eurobarometer 2012



Asylum policies: Economies of scale

	Share of cost item, in percent	Assumed cost advantage of EAA (costs EEA/current costs, in percent)		Resulting costs, as a percentage of current total costs	
		Cautious	Optimistic	Cautious	Optimistic
	(1)	(2)	(3)	(4) = (1) x (2)	(5) = (1) x (3)
Housing	42.7	95	70	40.5	29.9
Healthcare	4.6	95	70	4.4	3.2
Material reception conditions	11.5	95	70	10.9	8.0
Translation	1.0	80	60	0.8	0.6
Application assessment	13.8	80	60	11.0	8.3
Legal aid	3.9	80	60	3.1	2.3
Legal appeals	1.2	85	65	1.0	0.8
Taking and storing fingerprints	0.2	100	95	0.2	0.2
Custody	15.6	50	20	7.8	3.1
Travel	2.2	50	20	1.1	0.4
Other costs	3.5	100	100	3.5	3.5
	100.0			84.3	60.3

Sources: Column (1): Thielemann, Williams and Boswell 2010: 90; columns (2) and (3): scenario assumptions; columns (4) and (5): own calculations.

The core of the problem: fiscal decision making in a federal context

- Common pool disincentives (Shepsle and Weingast, 1981)
 - Local goods
 - Members of parliament with local constituencies
 - Financing of local goods from a country-wide (Europe-wide) „common pool“
- Results: Local goods (LG) with higher attraction than European public goods (EPG)
- Fully in line with „juste retour“ thinking
- Additional bias against EPG: potential (national) cost savings are opportunity costs (and possibly uncertain)

Targeted approaches

- Increase salience of EPG benefits
- Increase costs of LG relative to EPG
- Increase power of those actors in budgetary decision making who have a less parochial and more European perspective

Higher salience of EPG benefit relative to LG benefit

1	Marketing	Campaigning the European added value of specific EU policies
2	Experiments	Assigning EAV policies to EU on an experimental basis
3	Accounting	Augmenting the “budgetary balance” by including measures for indirect national benefits
4	Evaluation	Rigorous evaluation of European added value of EU spending
5	Contracting	Contracts on EU service provision between EU and member states

Increasing costs/lowering benefits of LG relative to EPG

1	Differentiated co-financing	National co-financing rates correlate with locality of policy
2	Pre-defined net balances	Neutralizing effect of modified expenditure structure on net balances

Reforms to budgetary decision making process

1	Power shift to EP	Strengthening relative power of EP over Council
2	European finance minister	Internalizing European benefits through strong finance minister

Triggers are mutually reinforcing

- EAV evaluations could determine different co-financing rates.
- Learning from reform experiments helps to calculate comprehensive net-balance measures.
- Larger say on EP could pave the way for EAV policies and further learning.

Concluding reflections

- Political-economic resistance against these innovation not critical: No rejection of “national interest” but redefinition
- Unproductive focus on the allegedly magic bullet EU tax – 2nd generation fiscal federalism as a source of fresh ideas!