BRIEFING
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European Parliament

Strategies to overcome the '*juste retour*' perspective on the EU budget

KEY FINDINGS

A net budgetary balance is a highly misleading indicator of the benefits from EU spending and EU membership.

Budgetary decisions taken on the basis of this indicator result in poor policies as they are biased towards programmes with monetary backflows into Member States. This '*juste retour*' mentality is a major obstacle to achieving more European added value through the EU budget.

The deeper underlying cause of this misleading and detrimental net balance preoccupation is the high salience and political appeal of backflow policies, with their easily identifiable national and regional beneficiaries. Policies whose European benefits are more dispersed and do not entail payments into Member States do receive less voter and policy support.

This briefing sketches and discusses the following options that might correct this detrimental bias:

- a discontinuation of the official reporting of net operating balances;
- augmented indicators of national benefit;
- differentiated communication campaigns;
- higher budgetary flexibility to shift money between budget lines;
- institutional reforms (e.g. transnational party lists for the European Parliament) or a limit to national veto power on the budget;
- new own resources (e.g. genuine EU taxes);
- a 'generalised correction mechanism' based on predefined net balances;
- differentiated co-financing rates.

This briefing concludes that despite each suggestion's specific weakness, a combination of measures could alleviate the damaging fixation with 'budgetary *juste retour*', which is a major obstacle for the EU to reach its ambitious European objectives.

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The problematic net balance view on the budget

The net budgetary balance that simply compares a Member State's financial contribution to the EU budget with the money that flows back into the country is a highly misleading indicator. Any such indicator is not informative of a Member State's comprehensive benefits from the EU budget and even less so of the overall benefits from EU membership.

The net budgetary balances provide misleading indicators for budgetary benefits (see Briefing on "Why net operating balances are a distorter indicator of a Member State's benefit from the EU budget"). Besides other shortcomings, they disregard the beneficial impact of EU spending abroad (e.g. development, migration), ignore the possible cost savings on the national level due to EU service provision and European added value (EAV; e.g. in trade policies), and disregard that EU spending may have beneficial cross-border effects beyond the receiving Member State (e.g. successful environmental or climate policies, technological innovations as a result of EU research funding).

The net budgetary balance is a highly erroneous indicator of the benefits of EU membership (see Briefing on "The benefits of EU membership are not measured by net operating balances"): Important dimensions of EU benefit are non-budgetary but of utmost relevance for the social and economic wellbeing of citizens. These dimensions include the freedom to choose the country of residence; the support for democracy and the rule of law; and the definition of binding standards for food, health and the environment. Moreover, economic growth and employment in the EU benefit from the Single Market.

If political decisions are based on faulty indicators, they will result in poor policy choices. This is exactly why the net balance preoccupation has been denounced as "poisonous".[1] The preoccupation with net balances is poisonous for rational reflections on the EU budget and the restructuring of the budget towards policies that create genuine European added value. Possible bad results are the following:

- EU policies are chosen just because they produce financial flows into Member States, independent of their contribution to EU policy objectives. Hence, this narrow perspective is a strong obstacle for all budgetary policies where spending takes place outside of EU borders yet still exerts a significant political and economic return for Member States (e.g. successful management of migration, development spending, external action).
- The net balance orientation and sole focus on the flow of money into one's own country **lower the ambitions of careful evaluation** on the extent to which EU spending truly delivers on its objective and creates an European added value.
- 'Juste retour' considerations **disregard advantages of EU spending originating from economies of scale** (i.e. cost savings for Member States that originate from a more efficient policy provision at the EU level) as these savings do not materialise as backflows.
- The narrow view disadvantages spending categories that are surrounded by *ex ante* uncertainty about the effective distribution of money among Member State (e.g. competitive allocation of research money based on excellence criteria). In particular, it disadvantages new spending priorities since there is no experience in the effective allocation of spending across Member States.
- The net balance orientation blinds policymakers to policies whose benefits are not monetary nor quantifiable.

Although the fundamental arguments against the narrow focus on 'juste retour' and net balances have been well known for many years, there seems to be little progress in abandoning this narrow perspective. Various strategies to widen said perspective have been discussed; they concentrate on different triggers and are often controversial. This briefing summarises their contents, rationale and important pros and cons. In a first step, it briefly recapitulates the sources of the net balance thinking, followed by a concise discussion of possible triggers that could overcome it.

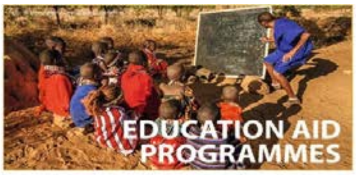
The nature of the narrow perspective

The net balance obsession of politicians, media and citizens dates back to at least Margaret Thatcher's famous declaration of "I want my money back" during the Fontainebleau European Council in 1984, which rung the starting signal for the proliferation of various types of rebates (see Briefing on "The benefits of EU membership are not measured by net operating balances"). There are many reasons why the simplistic perspective on EU budget advantages has been so popular throughout the Union. Net balances are easier to calculate than more refined indicators for the benefit of the EU. It is also easy for the media to communicate them. **All of this points to a deep underlying cause of the distorted perception of benefits from EU spending, which has to do with the salience of EU expenditures for Member States.**

With Cohesion and the Common Agricultural Policy (CAP), two spending types that are highly visible for receiving Member States, regions, companies and farmers still dominate the budget. From these recipients' perspective, the exclusive focus on backflows even seems to make sense**. Other spending types that may create significantly higher European added value for broader groups of European citizens do not lead to backflows that immediately benefit specific target groups in the EU** (e.g. successful development policy, border protection; see Figure 1). It is typical for such European public goods to **produce a more dispersed benefit** to all Europeans and may, therefore, be hardly noticed.

Politicians who seek re-election in their national or regional constituencies are compelled to react to these differences in salience and will often lobby for 'backflow policies'. Moreover, they are incentivised to judge the usefulness of the EU budget by comparing national contribution to these politically useful backflows (i.e. net balance perspective).

Figure 1. Different salience of spending

EU BUDGET FINANCES 		
A TYPE OF EU BENEFIT	A Humanitarian objective, lowering migration pressure, improving employment prospects and economic potential in recipient countries	A Stimulating convergence
B DIRECTION OF FINANCIAL FLOWS	B Recipients in a third country	B Recipients in Member State
C DISPERSION OF BENEFITS	C Broad – in the interest of all Europeans	C Direct effect in recipient region, indirect effects (e.g. growth spill-over) broader
D SALIENCE FOR EU VOTERS	D Very low	D Very high (direct effect) Very low (indirect effect)
E RELEVANCE FOR ELECTION CAMPAIGN OF A NATIONAL POLITICIAN	E Low	E High
F POLITICAL SUPPORT FROM NATIONAL CONSTITUENCIES	F Low	F High

Discontinuing the publication of net operating balances

A seemingly compelling first option to overcome the narrow perspective is to discontinue the reporting of net operating balances, which are currently published in the European Commission's annual Financial Reports. A further argument besides the Operating budgetary blances' conceptual flaws is that following Brexit and the consequent end of the UK rebate, the technical necessity to calculate these numbers will no longer exist. The European Commission has mentioned ending its reporting as one possibility in its Reflection Paper on the Future of EU Finances.[2]

However, some counterarguments question whether discontinuation is, in fact, a convincing option:

- Withholding information on national contribution payments and expenditure allocations would **run against the principle of a transparent EU budget**. The legitimacy of withholding data as a defence against populist misinterpretation of such data is questionable.
- **Net balances are not completely meaningless.** Certain distributive effects of the EU budget simply follow the principle of solidarity. For instance, Cohesion money is channelled into poorer countries and regions, or national contributions grow with gross national income (GNI). The EU has no reason to hide this redistribution that is the result of unanimous decisions between all Member States. It reflects principles of European solidarity or is the result of bargains where the losers of integration receive compensation in the interest of all Member States.
- Following discontinuation of official net operating balance numbers, **other institutions** (i.e. media, political parties, interest groups) may step in and **calculate net balance data of even less convincing quality and conceptual underpinnings.** A major advantage of official EU reporting is that the publication can always be done in combination with a list of caveats to minimise misunderstandings.[3]

More comprehensive and meaningful indicators

An alternative to the discontinuation of reporting is the development of a more comprehensive indicator that captures at least a part of the European added value from European spending. Conceptually, this exercise is relatively simple (see Box 1):[4] replace the zero-sum game logic of operational balances with a positive-sum approach. It must be stressed that even these 'augmented net balances' would still be an incomplete measure of the net advantages from the EU budget and membership, as they do not take account of cross-border spillovers from EU spending nor look into the actual economic burden from own resource payments (i.e. economic incidence).[5]

Aside from the fact that even a modified indicator will only convey a limited message on the overall benefit of EU spending, there would be additional challenges:

- **Augmented indicators will depend to some extent on estimates.** For example, estimations of benefits from the Single Market or national cost savings from EU action can only provide confidence bands for the size of the 'true' effect. Moreover, there are always methodological controversies as to what extent a certain model (and certain researchers) provides credible results. Hence, data on actual measurable payments would be combined with data of a very different quality.
- **There would be a particular credibility issue if EU institutions produced these augmented indicators.** Institutions like the European Commission have a natural self-interest to demonstrate the success of EU spending. This could bias its calculations or at least damage its credibility. Hence, calculations should be the responsibility of institutions and experts whose unbiased approach is more credible (e.g. European Court of Auditors, European Fiscal Board).[6]

Box 1. Augmented net balances

Conceptually, a more comprehensive balance would include benefits from EU spending that are not detectable in measurable backflows. For example, these can result from economies of scale when the EU provides a service at lower costs than a single Member State could. In this case, one type of national return from EU spending is *equivalent MS expenditure*. This is the level of spending that a Member State would need to finance in the counterfactual situation of no EU activity in that field. For instance, equivalent expenditure is what the UK is spending on the build-up of a new Department of International Trade, as UK trade policies are no longer represented by the European Commission. This extended balance can be calculated as follows:

$$\textit{Augmented net balance of } MS_i =$$

$$\text{direct backflows into } MS_i + \textbf{equivalent MS expenditure} - MS_i\text{'s own resource payments.}$$

Source: Heinemann, Friedrich (2011), "European Added Value for the EU Budget" in Daniel Tarschys (ed.), *The EU Budget: What Should Go In? What Should Go Out?*, Stockholm: Swedish Institute for European Policy Studies, pp.58-73.

Increasing the salience of European benefits from EU spending

Since misperception and ignorance of less salient benefits from EU spending is at the root of the juste retour perspective, a natural strategy is to fight such misinformation through **precisely targeted communication**. In the logic of the preceding arguments, these efforts could be concentrated on policies that have the handicap of a low salience for EU citizens.

For example, there is a case to **concentrate EU communication campaigns foremost on those programmes where the European benefits result from spending outside of European borders** (e.g. development)**, or within the EU borders but with widely dispersed benefits** (e.g. environmental programmes). Conversely, this would imply cutting back communication activities regarding the direct effects of Cohesion or CAP for recipients, as they are already well perceived.

In addition, **information campaigns must attempt to shed light on the hidden part of European benefits particularly** (i.e. cross-border effects from spending), or European added value from European economies of scale. For example, communication measures could illuminate how EU research funds have generated patents that are applied everywhere in the EU, how the Connecting Europe Facility funding instrument has created transport networks that are used by EU tourists and business people on their European trips, or how the global navigation satellite system Galileo can benefit mobility everywhere in Europe.

It is obvious that such differentiated communication efforts would meet **resistance from those who have an interest in traditional policies**, including not only recipients but also public administrations at the national and European levels. Moreover, it is difficult to decide which policies and programmes should earn this communication support.

Budgetary flexibility

As a general rule, the budgetary allocation across different spending categories in the Multiannual Financial Framework (MFF) is not flexible. For instance, money allocated for cohesion is ring-fenced and cannot be used elsewhere, even if there is underspending and unravelling of commitment for funds. The need for more flexibility across policies is also an issue in the ongoing MFF negotiations. **More flexibility to shift unused money from CAP and Cohesion to new policy priorities with a high potential of European added value could be interesting**. However, national players' strong interest to have a reliable guarantee on national spending allocations is the biggest political impediment to such a reform.

Institutional reforms that strengthen a European perspective of decision-makers

A very different strategy to fight the net balance approach is to strengthen political players who have a strong incentive to take a European perspective over a narrow national or local one. Recent debates on transnational party lists for the European Parliament and ending national vetoes in budgetary decisions are good examples.

The first idea of transnational party lists for European elections has been an issue in the Parliament's decision on how to use empty UK seats post-Brexit.[7] This decision involves various trade-offs. In the context of the budgetary policy, there is an important argument in favour of this innovation. To be successful in an election campaign, candidates from these lists would need support from voters across a critical number of EU Member States and, therefore, would have to address policy issues that are of interest to most. Thus, **transnational lists could foster a more European perspective.** The candidates would hardly have a chance to qualify through messages centred on narrow, country-specific national issues. Hence, it is not unlikely that MEPs elected from these lists will be more open to European public goods and less tempted to apply a narrow national net balance approach (see Table 1).

Table 1. Transnational lists: A change of perspective

	MEP with local constituency in single MS	MEP elected from a transnational party list
Re-election conditions	Majority in local constituency of one specific MS	Sufficient vote share for the respective party list in EU27
Programmatic focus	Policies that benefit local voters in MS	Policies that are attractive for larger shares of voters throughout EU27
Budgetary focus	Spending with local focus, with eligibility of own constituency	Spending programmes that are advantageous for regionally broader shares of EU population

Source: Heinemann, Friedrich (2016), "Strategies for a European EU Budget" in Thiess Büttner and Michael Thöne (eds.), "The Future of EU-Finances", Cologne: FiFO Institute for Public Economics, pp.95-112.

An important point of criticism against transnational lists refers to **its possible impact on the power balance between large and small Member States**. These lists could lead to an overrepresentation of large Member States, as their politicians could surpass the perception threshold among a critical mass of voters more easily than those from smaller countries.[8]

The second institutional reform that could promote a more European approach would be to enforce majority decisions on the MFF in the Council and scrap the current unanimity requirement in Article 312 TFEU. Such a reform would bring an end to national veto power that is regularly used to protect backflow policies that are in the particular interest of countries. However, this seems highly unlikely since Member States regard their veto power as indispensable, given the MFF's far-reaching implications for contribution payments and EU spending.

Revenue side innovations: New own resources

Perhaps the most prominent and longstanding proposal on how to overcome the juste retour perspective refers to the revenue aspect of the European budget. In this popular view, new genuine own resources (e.g. an EU tax) would change incentives for the better. Under the current own resource system, Member States must fund contribution payments (i.e. GNI and value-added tax own resources) from their national tax revenues. With a genuine EU tax, the European budget would be financed directly from taxpayers, with no involvement from national budgets. In this new setting, some stipulate that **national governments will no longer perceive these European revenues as 'their own' and hence be more relaxed about how it is used.**[9]

The controversial debate on the new own resources is rich with substantive arguments on both sides. For example, supporters argue that a new EU tax that is salient to European taxpayers fosters budgetary accountability of European policymakers. In addition, specific types of new EU taxes could have a value-added by themselves if, for example, they are designed as Pigouvian taxes to foster ecological objectives (i.e. a European carbon tax).[10] Counterarguments refer to the strength of the status quo surrounding GNI resources, which are generally perceived as transparent, fair and administratively efficient.[11]

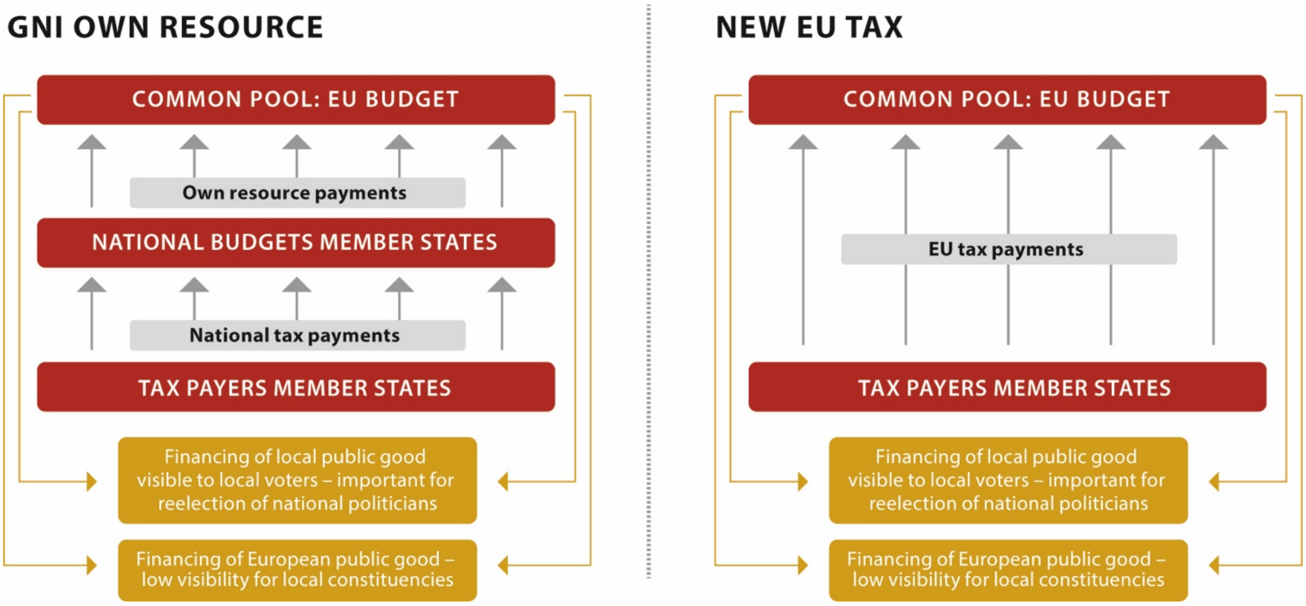
However, when reviewing this broad debate, **it can be questioned how a revenue innovation would pave the way for a truly more comprehensive assessment of the benefits of the European budget.** It cannot be taken for granted that new own resources will overcome disputes on fair burden-sharing. The money for the EU budget would no longer come from national tax revenues but directly from taxpayers instead. **The amount of revenue coming from taxpayers in the different Member States** (i.e. households, companies, savers) **would still be quantifiable in many types of EU tax** (e.g. a possible CO2 tax, financial transaction tax). Furthermore, voters and/or taxpayers would still be interested in issues of burden-sharing. Hence, a new type of net balance could be easily calculated and spark new controversies. For example, a European carbon tax that would substitute GNI own resources partially would shift the financing burden from the richer Member States in Western and Northern Europe to Central and Eastern European Member States, who have higher shares of fossil energy. This would definitely initiate new conflicts, even if the money no longer flows from the national budgets into the EU budget but is paid directly from those who use the energy.

Even if establishing revenues that cannot be meaningfully reapportioned nationally is possible, a new revenue source would hardly change incentives on the expenditure side. Even a new own resource lacking a measurable burden on Member States would not lower the salience and political appeal of backflow policies (e.g. CAP, Cohesion) as compared to EU spending with more dispersed and less salient benefits. **For instance, the political handicap of external European spending is its low salience for national voters, politicians and media in Member States** in comparison to payments to farmers. **A new revenue source would hardly do anything to overcome this asymmetry in perception.** Thus, while the general debate on new own resources is ongoing, its potential to overcome the national focus on budget backflows appears to be limited.

Figure 2 compares the financing of the EU budget under the status quo of GNI own resource against a possible new system where an EU tax (e.g. a CO2 tax) is paid directly by taxpayers into the European budget. A new EU tax would not overcome the fundamental problem of the asymmetry in the salience of local spending programmes on the one hand and European public goods on the other hand.

Status quo of GNI own resource	**System with a new EU tax**
– Taxes paid to Member States	– Taxes paid directly to EU budget
– Member States pay own resources to EU budget	– National budgets no longer used for resource transfer
– Asymmetry in political salience of local versus European public good financed from EU budget	– Asymmetry in political salience of local versus European public good financed from EU budget
– National governments (and citizens) compare the usefulness of EU projects to costs with a bias towards local goods	– Citizens compare the usefulness of EU project to costs with a bias towards local goods

Figure 2: Financial flows with GNI own resource and a new genuine EU tax



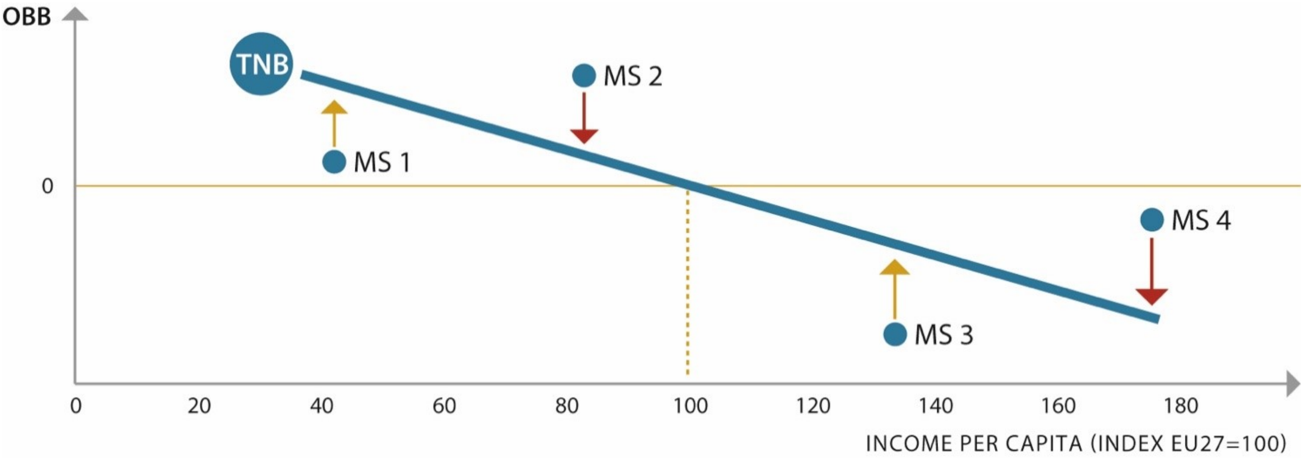
Revenue side innovations: A generalised correction mechanism

The European Commission has proposed a 'generalised correction mechanism' (GCM) in the past.[12] In academic literature, similar models were recommended as a targeted countermeasure against the net balance perspective on EU spending.[13] Unlike the UK rebate, which is tailored to the needs of one single Member State, the GCM would not privilege any MS. While a variety of models are possible, there is one common underlying idea: to separate the decision between Member States on burden-sharing from decisions on the budget's spending.

A generalised correction mechanism' (GCM) could be based on 'predefined net balances' (see Figure 3) which would define a target net balance (TNB) for any Member State. These targets would be the result of a political decision and typically be a function of income levels. Hence, a mutually accepted formula could easily allow for a higher burden on richer Member States, with positive net balances for the poor and negative ones for the rich. However the mechanism looks, **the essential feature of the generalised**

correction mechanism' (GCM) is that the structure of EU expenditures would no longer shape the effective burden-sharing between Member States. If the net burden materialises on levels above or below the TNB, the GCM would be activated and trigger correction payments between countries to reach the TNBs.

Figure 3. Generalised correction mechanism with predefined net balances



Proponents of such an approach argue that this mechanism would change incentives for the better. **Member States would lose the fiscal self-interest to maximise national envelopes in EU spending** as well as the incentive to push a certain policy just because it entails a significant financial backflow into the own country. With predefined net balances, there is an implicit 100% tax on additional backflows realised by gaining a higher share of spending allocations.[14] Such a decoupling strategy could pave the way for a more rational reflection on the type of EU spending that creates the largest European added value.

A generalised correction mechanism' (GCM) might also be an option to overcome fresh distributional conflicts emerging with new ambitious own resources that generate much income, like a European carbon tax, and disproportionately so in Member States with a high share of fossil energy. A new system of generalised rebates could secure agreement from those affected. This would compensate for gross contributions rather than net contributions and would take effect regardless of the EU's level of expenditure in a Member State. Such rebates could be tied to investment in new sectors that are not linked to the sector that is taxed. For example, Poland would pay a high price if a carbon tax is introduced. A rebate on that would be made conditional on Polish reinvestment that is not tied to the coal sector.

One essential argument against generalised correction mechanisms' (GCM) that correct the net balances is that it is based on a concept of burden-sharing that is highly questionable. Since a net balance is a highly distorted indicator of the national advantage from the EU budget, it might also be a faulty yardstick for meaningful corrections. Moreover, certain items on the EU spending side – foremost Cohesion – have an explicit redistributive dimension. These policies have been established with a view on solidarity or as an element of a strategy that seeks to compensate Member States for specific (relative) disadvantages from integration. It might be problematic to neutralise this kind of intentional redistribution. Finally, the precise definition of a GCM will be a non-trivial exercise and add substantial mathematical complexity to the system, thus lowering budgetary transparency.

Adapting national co-financing rates to make backflow policies less attractive

An idea less ambitious than the generalised correction mechanism but with a similar intention is **the adaptation of national co-financing rates to lower the attraction of backflow policies**. For example, national co-financing for direct CAP payments to farmers are currently at zero. This leaves the CAP's first pillar (i.e. financing these direct payments) a highly attractive instrument to channel money into Member States, no matter how large the scepticism of whether it truly serves a European objective. Introducing national co-financing for direct payments would lower the budgetary appeal of this expensive policy from the perspective of Member States.

Thanks to this more general approach, **co-financing rates for all types of EU spending programmes could be reassessed under the criterion of the specific programme's European benefit.** As a general principle, policies with a low potential for cross-border effects and European added value should have high national co-financing rates, and vice versa.

The fundamental dilemma for the success of any such approach is that **it would require a common understanding of the relative performance of EU policies**. In political reality, national and institutional self-interest will have a strong impact on the official assessments of the success of a specific policy instrument.

Conclusion

There is no single silver bullet to overcome the net balance orientation of policymakers, the media and voters. This briefing has sketched very different approaches. Some – predefined net balances, adapted co-financing rates, new EU own resources – target budgetary incentives of national players. Others – differentiated communication, extended benefit indicators – address the problem of asymmetric salience of different EU policies directly. Finally, models like transnational party lists for the European Parliament touch far-reaching institutional questions and would, therefore, require careful reflections. **A combination of measures would be most promising since some of the suggestions are mutually reinforcing.**

Whatever the chosen strategy may be, **overcoming the net balance preoccupation is a precondition for a European budget devoted to genuine European added value and hence is of crucial relevance for the EU's future capability to reach its ambitious objectives.**

[1] Le Cacheux, Jacques (2005), "European Budget: The Poisonous Rebate Debate", Paris: Notre Europe.

[2] European Commission (2017), "Reflection Paper on Future of EU Finances", COM(2017) 358, Brussels.

[3] This is current practice: the appendices on operating balances in the European Commission's Financial Reports always include a concise summary of this concept's limitations. "Because of the prevalence of this calculation in the perception of fair burden sharing in relation to the EU budget, it is important to clarify further that certain elements of EU added value are not captured by this methodology, such as […]." European Commission (2019), "EU Budget 2018: Financial Report", Luxembourg, p.72.

[4] Heinemann, Friedrich (2011), "European Added Value for the EU Budget" in Daniel Tarschys (ed.), *The EU Budget: What Should Go In? What Should Go Out?*, Stockholm: Swedish Institute for European Policy Studies, pp.58-73.

[5] There are attempts to calculate cross-border effects from the trade channel and include it into a more comprehensive measure. See Cipriani, Gabriele and Stefano Pisani (2004), "The European Budget: An Alternative to Budgetary Balances to Assess Benefits for the Member States", Pavia: University of Pavia. However, it must be questioned whether an increase of exports can really be compared to the welfare gain from receiving Cohesion money. While the latter flows constitute a cross-border transfer of wealth, export revenues simply compensate for a good or service provided (and hence do no constitute a transfer).

[6] Asatryan, Zareh; Xavier Debrun; Friedrich Heinemann; Michal Horvath; L'udovít Ódor and Mustafa Yeter (2017), "Making the most of the European Fiscal Board", Mannheim: Leibniz Centre for European Economic Research.

[7] Barbière, Cécile, "European Parliament votes against transnational lists", *Euractiv*, 07 February 2018.

[8] Pukelsheim, Friedrich and Kai-Friederike Oelbermann (2015), "Reinforcing uniformity in the European election act: gentle interim arrangements in 2019. Towards systematic double-proportionality in 2024", Brussels: European Parliament.

[9] Haug, Jutta; Alain Lamassoure; Guy Verhofstadt; Daniel Gros; Paul De Grauwe; Gaëtane Ricard-Nihoul and Eulalia Rubio (2011), "Europe for Growth: For a radical change in financing the EU", Brussels: Centre for European Policy Studies.

[10] Schratzenstaller, Margit; Alexander Krenek; Danuse Nerudová and Marian Dobranschi (2017), "EU Taxes for the EU Budget in the Light of Sustainability Orientation – a Survey", *Journal of Economics and Statistics*, Volume 237, Issue 3, pp.163-189. Monti, Mario; Daniel Daianu; Clemens Fuest; Kristalina Georgieva; Ivailo Kalfin; Alain Lamassoure; Pierre Moscovici; Ingrida Simonyte; Frans Timmermans and Guy Verhofstadt (2016), "Future Financing of the EU: Final report and recommendations of the High Level Group on Own Resources", European Commission. Benedetto, Giacomo (2017), "Institutions and the route to reform of the European Union's budget revenue, 1970-2017", *Empirica*, Volume 44, Issue 4, pp. 615-633.

[11] Heinemann, Friedrich; Philipp Mohl and Steffen Osterloh (2008), "*Reform options for the EU own resources system*", Berlin: Springer Science & Business Media.

[12] European Commission (2004), "Financing the European Union: Commission report on the operation of the own resources system", COM(2004) 505 final, Volume II, Brussels.

[13] de la Fuente, Angel; Rafael Doménech and Vasja Rant (2009), "Addressing the net balances problem as a prerequisite for EU budget reform: A proposal", *CESifo Economic Studies*, Volume 56, Number 2, pp.221-250. Heinemann, Mohl and Osterloh (2008), *op.cit.*

[14] Haug et al. (2011) argue that the generalised correction mechanism (GCM) would be an incentive for a country "not to fight for more, but for less EU spending in its territory" and state that this would lead "to an undersupply of EU programmes having an EU added value." (p.28) This view is hardly convincing since the fact that spending takes place within a Member State's territory is no indicator of a European added value, but rather is more likely a contraindication. A genuine added value (i.e. national cost savings as a consequence of EU spending) are not taxed at all by a GCM. Thus a GCM would set incentives to search for this genuine European added value (that is not just an advantage in a zero-sum redistributive game).

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