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The EU budget and UK contribution

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The European Union budget is small and fulfils only a limited range of functions, yet it provokes regular disputes among the member states and institutions of the Union. This paper describes the structure of the budget and shows that standard theories, such as fiscal federalism, are not well-suited to analysing how the EU budget operates or the political economy behind it. The paper then looks at how much the UK contributes towards the EU budget and explains why some of the claims made about it in the public discourse are inaccurate.

Keywords: European Union budget; fiscal federalism; UK referendum on EU; EU cohesion policy; common agricultural policy; own resources

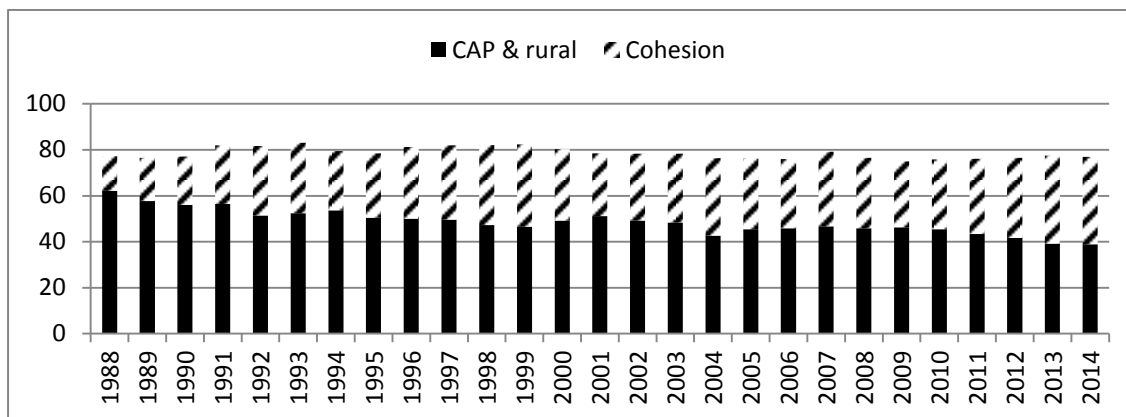
JEL Classifications: F55, H11, H61

One of the most consistently contentious aspects of the European Union is its budget. This is a puzzle, not least because the budget accounts for barely 2 percentage points of aggregate public expenditure by all levels of government. The issues that cause friction turn on fractions of a percentage point of the GDP of Member States and would probably generate far less acrimony if they arose inside a country. Disputes centre on the size of the budget, the net contributions or receipts of different Member States, the composition of spending and the manner in which the budget is funded. During the 1980s, there was intense conflict between the EU institutions over who should have the final say on the budget (Laffan, 1997). Although the significant reforms in 1988 saw a diminution in these conflicts, they have not gone away.

Since 1988, limited changes in the presentation and composition of the budget have been undertaken. The total budget expenditure has been around one percent of EU GDP on average, reflecting the fact that that for the principal net contributors (notably Germany and the UK) keeping the budget low has been a priority. Since it has to be agreed by unanimity among the Member States, they have been able to achieve this aim. Within this total, around three-quarters of the spending has been devoted to two principal policy areas: Cohesion Policy, targeted at economic, social and (more recently) territorial development; and support for agriculture and rural development. All other headings of the budget have had to compete for the remaining quarter. Over these three decades, the main change in the budget has been for the share of Cohesion Policy to rise, while that of agriculture has fallen (figure 1).

The EU budget also elicits regular hostile comment. It fails, year after year, to obtain a statement of assurance from the European Court of Auditors that the money had been properly spent, an outcome that is mainly the result of errors in conforming to the complex rules governing spending, rather than overt fraud. Brussels 'fat cats' are frequently castigated for their extravagance, high pay and perks, even though the administrative share of the budget was around 6% in 2015, and much of that is to pay for the costs of translation and interpretation.

Figure 1, Shares of the EU budget, 1988-2014



Source: EU Financial Reports, 2008, 2009, 2010, 2011, 2012, 2013, 2014

Since the budget was recast in 1988, there have been substantial changes in the EU itself. The euro has been introduced and there have been four enlargements of the EU's membership (in 1995, 2004, 2007 and 2014), taking the number of Member States from twelve to twenty-eight, greatly increasing the disparities in GDP per head within the EU. As Buti and Nava (2009: 478) note, 'the weight of the past both in terms of expenditure, revenues and budgetary procedure has tended to prevail, leading over time to an increasingly suboptimal distribution of tasks between the EU and the national level'. Time after time, political constraints have inhibited reform (Heinemann et al. 2010).

Although successive UK governments have grumbled about the costs of the EU budget, it did not feature in the 'renegotiation'. However, it is one of the higher profile issues around the Brexit debate, with claims and counter-claims about how much the UK 'sends to Brussels', and frequent assertions about how the same money could be better used at home, whether for flood defences, hospital building, recruitment of more nurses or other preferred options of critics. A reason for this is that there are many ways of presenting key measures, such as how much it costs or who gains from it, allowing protagonists on different sides of the debate to seize on particular indicators to support their case. Often, however, an opposite case can be constructed just as convincingly by using a different mix of figures, leading to confusion about the true position.

The aim of this paper is to explain the rationale for, and purpose of, the EU budget and to convert some of the heat in the debate on it into light. It looks in particular at the various interpretations of the cost to the UK. The next section considers how the budget fits into the wider framework of public finance in the EU, notably through the lens of fiscal federalism. The following section focuses on the UK and some of the contentious issue that the budget evokes, then conclusions complete the paper.

The EU budget in the public finance framework

Many standard theories, whether rooted in public economics, political science or European integration studies, struggle to offer a convincing story about the development of the budget or how it might be expected to evolve. In the standard 'Musgravian' schema, a distinction is made between the stabilisation, allocation and redistribution functions of public finances (Musgrave, 1959). Where there are multiple tiers of government, fiscal federalism offers a potential framework for

determining which tier should be primarily responsible for undertaking each function. Substantial cross-border externalities or opportunities for economies of scale or scope are usually adduced as reasons to assign budgetary competence to higher tiers, while diversity in preferences justify pushing competence downwards.

However, when confronted with the current EU budget, the theory falls at the first hurdle because the presumption is that the centre – even in a substantially devolved polity such as Switzerland (McKay, 2001) – has revenues and functions that it is logical to assign to it. Quite simply, the EU budget does not provide the mix of public goods normally associated with the highest tier of government or consistent with tests of subsidiarity such as that developed by Ecorys (2008).

Although there was a limited attempt to accelerate some EU spending as part of the fiscal stimulus package launched by the G20 in 2009, the scope for using the EU budget for macroeconomic stabilisation purposes is negligible. By Article 310 on the Treaty of the Functioning of the European Union (TFEU) It is required to balance the budget each year, precluding the operation of automatic stabilisers, and because the budget is small, cannot really make a visible macroeconomic impact. In a study published some forty years ago, MacDougall (1977) set out the magnitudes that would be needed to fulfil different functions in this regard, suggesting that for an economic and monetary union, it should be 5-7% of GDP to be able to contribute to macroeconomic stabilisation. Having been stuck at around just one percentage point of GDP since 1988 and with hawk-eyed negotiators from the net contributor countries able to block any proposals to increase this amount, a stabilisation function can be excluded for the foreseeable future. There have been calls as part of the reform of Eurozone economic governance for some additional fiscal capacity, but these lack sufficient report and did not feature in the *Five Presidents' Report*, the most recent blueprint for completing EMU (Juncker et al., 2015).

Allocation or redistribution: an unresolved mystery?

This leaves allocation and redistribution, yet the rationale for having an EU budget can be hard to discern. There clearly has to be provision for the administrative costs of running the EU, including the various institutions of governance that have been put in place over the years. There are also spending programmes that reflect treaty obligations, although their size and scope are not dictated by the treaty. Thus, the Common Agriculture Policy (CAP) is provided for in Part 3, Title III of the TFEU, with Article 40 stating that 'to attain its objectives, one or more agricultural guidance and guarantee funds may be set up'. Title XVIII, similarly, covers Cohesion Policy, with Article 175 referring to the various Structural Funds and the 'financial instruments' – code for loans, notably from the European Investment Bank – to be used to attain cohesion objectives.

The stated objectives behind the CAP and Cohesion Policy are a mix of allocation and redistribution. Five objectives are set out for the CAP: raising productivity in the sector; boosting the income of farmers; stabilising markets; assuring food supply; and ensuring that consumers are supplied at reasonable prices. The Treaty states in Article 176 that the purpose of the European Regional Development Fund is to 'redress the main regional imbalances'. In its most recent iteration, as described in the 6th Cohesion Report (Commission, 2014: xxi), Cohesion Policy has been 'refocused on delivering an investment policy'. This extends the approach, already apparent in the 2007-13 planning period of associating the policy with the EU's overarching growth strategy, now embodied in the Europe 2020 strategy (previously, the Lisbon strategy).

In principle, the productivity, market structuring and food security elements of the CAP, as well as the investment orientation of Cohesion Policy, are allocative objectives. Yet many commentators on the EU budget take the view that these policies are redistributive – Tabellini (2003: 93) puts it succinctly: ‘currently the EU budget is mainly devoted to finance the redistributive programs of the EU’. There has also long been a view that these policies are side-payments designed to buy the acquiescence of beneficiaries to market integration.

Tabellini (2003: 89) justifies his stance by asserting that Cohesion Policy seeks ‘not to increase economic efficiency, but to redistribute the benefits of integration among countries. Two redistributive purposes were prominent: to provide side payments so as to facilitate compromise in bargaining situations, and to achieve some redistribution from rich to poor countries or regions’. He also questions why the basis for this redistribution should be regional, rather than to other potential targets, such as poor urban areas, suggesting the EU has little legitimacy to choose which citizens should benefit. He further argues that the thrust of recent reforms, by moving the CAP away from market distorting price support towards income support, undermines the rationale for it to be an EU level policy.

Several studies have sought to explain the distribution of EU spending among the Member States, typically focusing on variables such as voting power or relative prosperity. Unsurprisingly, given the unanimity needed to strike the septennial MFF deals, Akzoy (2010) finds that smaller countries, which are relatively over-represented in both the European Parliament and the Council, obtain higher shares of EU spending than would be predicted. De la Fuente et al. (2010: 222) argue that ‘that conflict among member states over the distribution of net financial burdens has been allowed to condition the design of the entire European budget’.

EU revenue

Most of the revenue that funds the EU budget comes from what are known as ‘own resources’ which are designated income flows that have been assigned for this purpose (Begg, 2011). What are known as ‘traditional’ own resources (ToR) consist predominantly of customs duties charged on imports from outside the EU, topped up by some additional levies on certain agricultural imports. Although ToR revenues ‘belong’ to the EU level, they are collected by Member States who are allowed to keep 25% of the proceeds as a collection fee. They are complemented by what are described in the EU’s accounts as ‘national contributions’. The latter comprise a share of the proceeds from each Member State’s value-added tax (VAT) and an amount linked to the GNI of the country.

The VAT calculation is adjusted to take account of differences in the coverage of the tax - in the UK, for example, VAT is not charged on food and children’s clothing. The principle behind the GNI resource is that each country should pay much the same proportion of its national income, although as explained below, there are then ‘corrections’ intended to adjust for inequities in the system.. Unlike most income tax systems in Member States, is not progressive in the sense of charging a higher rate to the better-off. That said, the bigger the country’s GNI, the more it pays towards the EU. The legal basis for own resources is established every few years in an agreement known as the *Own Resources Decision* which is taken unanimously by the Council of Ministers, after consultation of the European Parliament. The fact that the Parliament is only consulted, in contrast to its co-decision role in expenditure, means that the revenue raising is essentially an inter-governmental

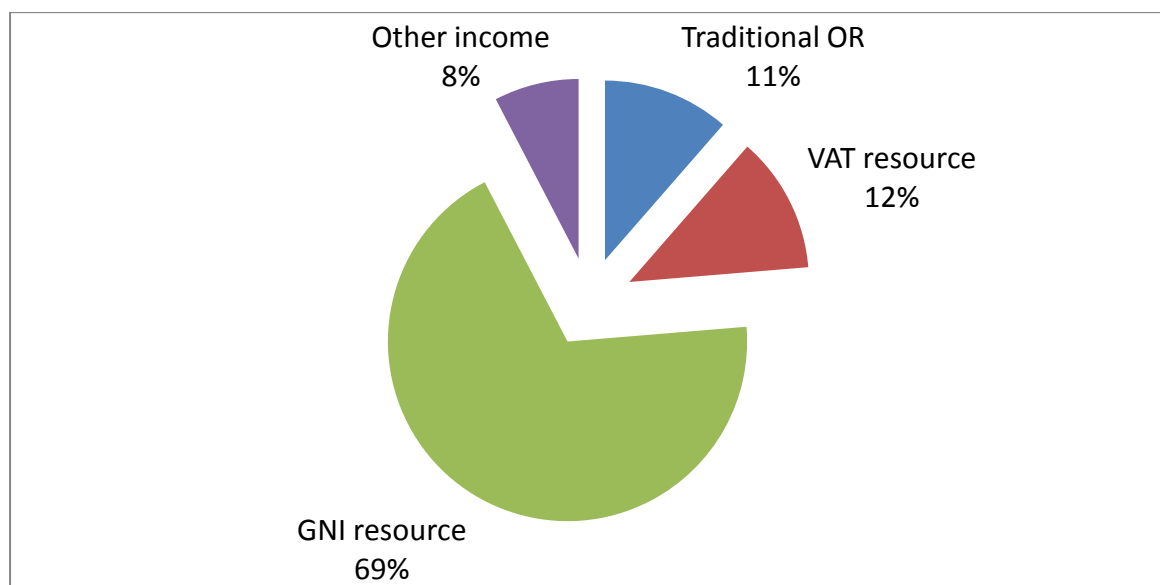
deal. A small proportion of the EU's revenue comes from other sources, including the fines on companies, such as Microsoft, which have been found to have breached EU competition rules.

The yield from the ToR has declined over the years, largely as a result of customs duties being reduced through multilateral trade deals and other bilateral trade agreements between the EU and other countries. Similarly, what is known as the take-up rate for the VAT resource has been reduced. As a result the two national contributions, especially the GNI resource, have become the main component of the EU's revenue. In 2014, as figure 2 shows, the share of the GNI resource was over two-thirds.

In successive rounds of MFF negotiations, dating back to 1988, attempts have been made by the European Commission, usually with support from the European Parliament, to assign particular taxes to the EU. However, despite extensive efforts to identify and justify suitable new own resources, the Member States have consistently rejected these initiatives on the grounds that tax setting is a power reserved to them. In practice, the EU has only pretty limited powers in relation to harmonisation of value-added tax designed to prevent distortion of competition, but has little influence other indirect taxes and none on direct taxes.

The manner in which GNI figures are compiled can affect demands on individual countries. When the change is substantial, it can give rise to recalibration of amounts due in a way that becomes politically delicate. The definition of GNI is laid down in standards agreed periodically by the statistical offices of EU Member States in conjunction with Eurostat, the EU level authority, and encapsulated in the European System of Accounts (ESA). Given that the ESA is revised only every few years, methodological changes can introduce sizeable shifts in measured prosperity and mean that Member States' relative position within the EU, and thus the amount they are charged under the proportion of GNI principle, can shift noticeably.

Figure 2 EU revenue shares 2014



Source: EU Financial Report 2014

Individual countries can also revise their procedures for calculating national accounts from time to time, also potentially resulting in sudden jumps in the levels of GNI or GDP. A famous incident was in the 1980s when Italy developed a new approach to measuring its hidden economy, resulting in a big overnight increase in Italian GDP, taking it above that of the UK. At the time, it was described as '*il sorpasso*' – the overtaking – eliciting the acerbic comment from Margaret Thatcher that she was unconcerned because it meant that Italy would have to pay more towards the EU budget.

There are three principal conflicts on revenue side of the budget: over its size; over the mix of revenue streams used to fund it; and over the net fiscal burdens on individual Member States. Because national contributions dominate, the decisions on who should pay for Europe are a by-product of national accommodations on taxation. As a consequence, the median tax-payer in one Member State may differ substantially from counterparts in another, such that there is no easy connection between the individual tax-payer and the spending authority. Indeed, it could be argued that the tax-payer in the EU context is the Member State with the result that accountability to tax-payers is oblique.

One of the explanations for the sharp focus on net budgetary positions in the political economy of the EU budget, according to Kauppi and Widgrén (2009), is that the Member States dominate the decision-making process. Because they tend to be more interested in securing the most favourable net position than on ensuring that what the EU spends money on is in the common interest, games are played which result in outcomes which pay little heed to what conceptual models of a multi-tiered public finances suggest *ought* to be spent at EU level. Moreover, the unanimity rule for agreeing the budget among the Member States and the implied veto wielded by even the smallest, very much favours the status quo.

The UK contribution

In principle, the amounts paid into the EU's finances from each Member State should be very similar as a proportion of gross national income. Since roughly one percent of EU GNI is required to pay for the various EU spending programmes, the starting assumption would be that the imposition on each Member State should also be one percent of GNI. In published tables this amount is presented as the 'gross contribution', a hypothetical amount of what they should pay if they were to contribute pro rata to the EU's income.

However, for a variety of reasons, this is not necessarily what they actually pay – and thus what their national treasuries have to transfer to Brussels. The most important reason is that the UK 'rebate' agreed in 1984 to placate Margaret Thatcher's demand 'I want my money back' means that the gross contribution of all twenty-eight Member States is adjusted. That of the UK is reduced and that of the other twenty-seven is increased, to pay for the UK cut.

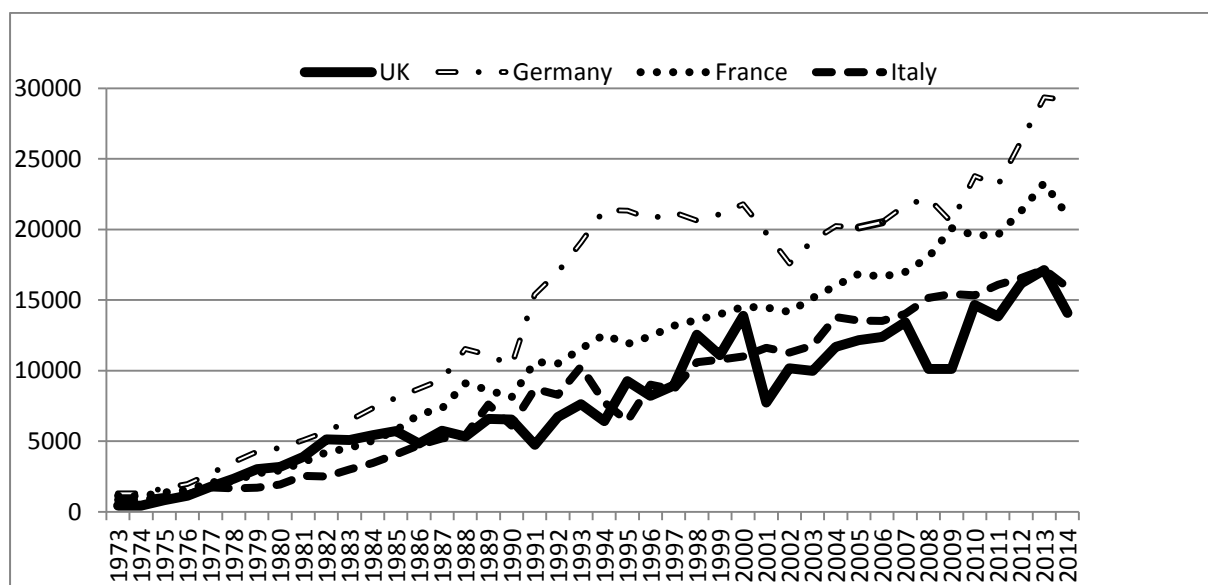
But that is not the end of the story because, since the rebate was first agreed, Germany (which, in the mid-1980s, was the only other country that paid more in to the budget than it received from it) has only had to pay a fraction of its hypothetical share towards it. Certain other countries have also since had their contributions towards the UK rebate cut because they too had become substantial net contributors to the EU budget. This 'rebate on the rebate' means that the remaining countries –

including France where grumbling about *le cheque britannique* rivals UK antagonism to the CAP – have to pay proportionally more.

As originally designed in 1984, the UK rebate is calculated by, first, comparing the ex-ante amount the UK is expected to pay into the budget and the EU public spending in the UK. Two thirds of the difference is then deducted from what the UK would otherwise pay and is deducted from the gross payment in the following year. A concession made in 2005, when the UK was negotiating the 2007-13 MFF, meant that additional Cohesion Policy spending going to the countries of central and eastern Europe was excluded from the rebate calculations, resulting in a lower proportional rebate than previously.

As figure 3 shows, since 1973, the UK has always paid less than Germany, which would be expected since Germany is a larger economy, but since the rebate was introduced in 1985, has also consistently paid less than France – a similar sized economy – usually by quite a large margin. Moreover, despite the stagnation of the Italian economy since the 1990s (it is the same size today as it was in 1999 and *il sorpasso* has long since been undone), Italy has more often than not paid more into the EU budget than the UK, especially since 2000.

Figure 3 Payments into EU by four largest Member States, 1973-2014 (current prices)



Source: EU Financial Reports, 2008, 2009, 2010, 2011, 2012, 2013, 2014

As a result of reforms to some EU programmes, notably the CAP, countries like the Netherlands switched over the years from being net beneficiaries from the EU budget to net contributors, to such a degree that they too demanded their money back. They, along with the Austria, Sweden and (most recently) Denmark were accorded other sorts of ‘correction’, with the result that (along with the UK and Germany) several of the richer Member States have their *ex-ante* contributions reduced.

How large is the UK contribution?

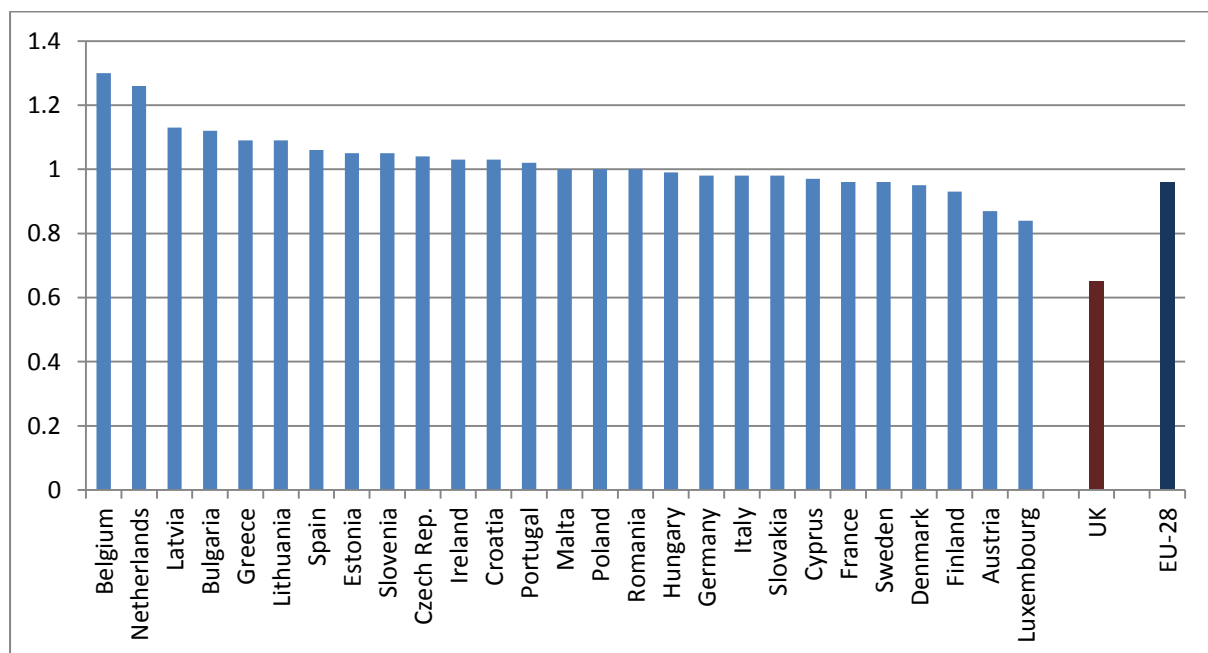
As one of the largest economies in the EU it is no surprise that the UK is one of the countries asked to pay most towards the EU budget, and the cost of this to the British tax-payer is manifestly one of the contentious issues around UK membership of the EU. The contribution can be measured in a

number of different ways, potentially adding to the confusion. As explained above, one possible measure is the hypothetical gross contribution based on requiring each Member State to pay in proportion to its prosperity, as measured by gross national income. However, because of the UK's rebate and the various other corrections what might be called the *actual* contributions differ from these *ex-ante* gross contributions. To reiterate, the money that national treasuries are obliged to send to Brussels every month is derived from these post-correction actual contributions.

A third concept is the net contribution which is a measure of the difference between what a country pays-in and what it receives from EU spending programmes, especially the CAP and Cohesion Policy. Because the UK has a relatively small farming sector and few regions eligible for the most intensive levels of regional development support, the UK's share of EU spending has always been small as a proportion of GNI, explaining why the UK has always been a net contributor to the EU budget.

In what follows, the data presented refer only to the *actual* payments the UK makes to the EU budget, in other words the debits that would show on the Treasury's bank account if we could examine them. As recently confirmed to the author by both the UK Treasury and the Directorate-General for the Budget of the European Commission, this is the correct figure for what the UK pays and is always below the hypothetical gross contribution by the amount of the rebate. Figure 4 shows that the actual payments towards the own resources of the EU by each Member State in 2014 ranged from 0.65% of GNI for the UK to 1.3% for Belgium.

Figure 4 Contributions by Member States to EU own resources, % of national GNI, 2014



Source: EU Financial Reports, 2014

It is easy to be misled because of the way EU budget data are presented in official documents. Thus, in its annual publication on the UK's national accounts (the 'Blue Book'), the Office for National Statistics (ONS) separates credits from debits. Rather quaintly, the relevant table refers to the Fontainebleau adjustment – shown in the publications as data series FKKL – derived from the fact that the rebate was agreed in that town in 1984. Separate entries in the table show the amounts

due under each of the EU own resources in each year, summing up to a figure for ‘total identified UK uses’ (data series GCSM).

The Treasury, in its regular reports on European Union Finances, always publishes a table showing the notional gross contribution, the rebate, the public sector receipts and the net contribution. Yet another complication is that the UK fiscal year runs from April to April, whereas the EU fiscal year (and that of most countries) is calendar years. This means that any budget presented by the Chancellor cuts across two EU fiscal years. Table 1, reproduced from the most recent Treasury report, published in December 2015, shows these data (HM Treasury, 2015).

These Treasury figures are close to, but not identical to, the series published by the ONS. It is also important to note that the ‘public sector receipts’, which are deducted to arrive at the net contribution, do not include other EU spending in the UK which goes directly to the private sector. This excludes, for example, grants from the EU to companies or the income going directly to UK Universities to fund research. This, too, can cause confusion.

Table 1 UK Treasury figures on the UK contributions to the EU budget

	£ million						
	2009 Outturn	2010 Outturn	2011 Outturn	2012 Outturn	2013 Outturn	2014 Outturn	2015 Estimated Outturn ¹
Gross Payments ²	14,129	15,197	15,357	15,746	18,135	18,777	17,779
Less: UK rebate	-5,392	-3,047	-3,143	-3,110	-3,674	-4,416	-4,861
Less: Public sector receipts	-4,401	-4,768	-4,132	-4,169	-3,996	-4,576	-4,445
Net contributions to EU Budget³	4,336	7,382	8,082	8,467	10,465	9,785	8,473

¹ The figures for 2015 are based on the Office for Budget Responsibility Forecast Supplementary Table (2.24) and converted to sterling. It has been adjusted to take into account the late adoption of amending budget 8 to the 2015 annual budget. Those for earlier years are outturns.

² Gross payment figures include TOR payments at 75 per cent. The remaining 25 per cent is retained by the UK to cover the costs of administering collection on behalf of the EU.

³ Due to rounding, totals may not exactly correspond to the sum of individual items.

Source: Office for Budget Responsibility and HM Treasury

Source: HM Treasury (2015)

As the Treasury report explains it [paragraph 3.6], the majority of the public sector receipts ‘will either be paid to, or used in support of, the private sector but are channelled through government departments or agencies’. The report goes on to explain [paragraph 3.7] that ‘the EU makes some payments directly to the private sector, for example to carry out research activities. These payments do not appear in the public sector’s accounts. It is estimated that in 2013, these receipts were worth £1.4 billion’.

The upshot is that while there are firm figures from UK statistical sources for the public sector’s transactions with the EU, there is only an estimate for the additional flow of cash from the EU budget to the UK. A figure for this wider definition of the net contribution can be constructed from the data compiled by European Commission, showing that the UK net contribution is smaller, in general, than implied by the Treasury data. Based on the data from the Treasury table shown above,

the actual contribution in 2014 (often presented in the public debate as what the UK 'sends to Brussels') was £18,777 million *less* the rebate of £4,416 million; that is £14,361 million, equivalent to £276 million per week. The net contribution, taking account of the estimated £1.4 billion of 'Brussels' spending accruing directly to private agents is the Treasury figure of £9,785 million *less* £1,400 million; that is £8,385 million.

A €2 billion Euro demand

An illustration of how the dry statistical methodology behind the GNI contribution can erupt into a political dispute arose in 2014 when the UK was confronted with a demand to pay an extra €2 billion euros into the EU budget. The explanation was obscure, but purely technical: some countries, notably Germany, had already adopted certain changes in the GNI methodology (reported colourfully, if not entirely accurately, as taking into account earnings from prostitution) while other had not, including the UK. Because the changes in question meant revisions going back a number of years, their effect was to raise the nominal level of UK GNI in each of these years, the UK became liable for a much larger amount than in previous such GNI adjustments. Part of the demand was for 2014, the rest a recalibration of what the UK should have paid in previous years.

Cue splenetic reactions from the Prime Minister: 'if people think I am paying that bill on 1 December, they have another think coming', though less so from the Treasury which almost certainly knew well in advance that the demand was in the pipeline and may, dare it be said, have neglected to brief ministers adequately. The issue provoked so much indignation in the UK that a compromise was found under which the UK would pay half in the current year and half in the subsequent fiscal year. In the end, despite veiled suggestions to the contrary from Ministers, the amount due was also halved, in line with the standard functioning of the UK rebate. David Cameron lived up to his promise to the extent that he paid later than December 1st and the bill was not as high as the headlines signalled, but despite the rhetoric, pay he did.

UK contribution in perspective

In assessing whether what the UK pays towards is fair and appropriate, there are many possible answers. Whether to use the actual payment to the EU or one of the net contribution figures depends largely on the purpose for which the ratio is being used. If the question is how much the EU costs each of us (on average) per year, week or day, it is arguably best to use the actual payment, since this is the total amount charged to UK tax-payers. Using the £14.7 billion ONS figure (rather than the marginally lower Treasury figure) and the estimated UK population of 64.35 million, the answer is that in 2014, the EU cost each of us £228.44, translating into £4.40 per week. The Treasury preference is, however, to use the public sector only version of the net contribution. This measures the flow of UK taxpayer money to recipients outside the UK, deducting public sector flows that return from the 'Brussels' to be distributed via the UK public sector, principally, again, for agricultural subsidies and cohesion policy.

If, instead, the focus of interest is the net flows from the perspective of the balance of payments, what should be measured is the difference between the amount paid by UK tax-payers and all the receipts from the EU. This is less readily measureable in UK budgetary accounts because a proportion of the receipts from EU programmes goes directly to recipients, rather than through UK public agencies. From a distributive perspective, it is also worth noting that UK recipients of money

from the EU budget are not median voters or tax-payers, but highly selective groups, such as farmers or people in areas benefitting from cohesion policy spending.

Half a trillion pounds?

One of the more dramatic claims about the UK contribution to the EU budget, attracting headlines in several newspapers, is that since acceding to the EU in 1973, the cumulative amount exceeds half a trillion pounds. It is explained in a paper published by the *Vote Leave* campaign¹ which had calculated how much the UK had paid into the EU budget since joining in 1973, using the technique of inflating the cash payments from earlier years to 2014 prices, then aggregating the 43 years of payments. Thus, the UK paid £187 million to the EU in 1973, but between 1973 and 2014, prices in the UK rose nearly tenfold, so that at 2014 prices the 1973 payment is equivalent to £1.86 billion.

The problem with the *Vote Leave* calculation is that it overlooks the rebate. As explained above, the actual payment the UK makes always has the rebate deducted which means that the gross contribution data on which the headline figure is based greatly exaggerates what UK taxpayers have actually 'sent to Brussels'. In the paper, the GDP deflator published by the Office of National Statistics is used to inflate the UK contributions from earlier years. To arrive at an accurate figure, the same deflators have been used to calculate the value at 2014 prices of the rebates received in the thirty years from its introduction in 1985 up to 2014. These total £108.9 billion at 2014 prices and mean the figure quoted exaggerates the true figure by some 29%.

Concluding comments

The EU budget cannot sensibly be compared with federal budgets in other polities, because it does not fulfil 'Musgravian' functions that are routinely assigned to the highest level of governance, making it hard to analyse using established concepts and theories (Begg, 2009). Equally, it is broader in scope than the budgets of other international organisations or agencies and is clearly more politicised. It is probably best thought of as a special purpose budget, intended to fund a number of specific expenditure programmes, but not to have a wider role in economic governance. Instead, its role is the largely political one of facilitating the give and take at European level, both in relation to objectives set out in the treaty (notably the two dominant spending programmes) and more implicitly on the extent of net fiscal transfers.

Given, the plethora of concepts and measures, it is little wonder in the debate around Brexit that many different interpretations can be put on the gross and net UK flows to and from the EU budget. It is alarmingly easy to present the same basic data as either an unreasonable burden or a comparatively trivial cost to the tax-payer which yields considerably greater benefits. There is nevertheless a tendency to mix up data that concern different issues. For example, the retort to the half a trillion pounds claim by *Vote Leave* from its rival, *Britain Stronger in Europe*, is that the average UK household is £3,000 per year better off through belonging to the EU. This may or may not be a well-founded statistic, but it is derived from an assessment that includes the effects of lower prices attributable to the more competitive business environment of the single market and various

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<https://d3n8a8pro7vhmx.cloudfront.net/voteleave/pages/214/attachments/original/1451513263/VLBudgetNote.pdf?1451513263>

influences on economic growth. These other variables have nothing directly to do with the EU budget – in other words, apples are being compared with oranges.

In assessing the UK contributions to the EU's finances, there are interpretations which are reasonable and those which are 'spun' to make political points, even though they are – bluntly – an abuse of statistics. A normative judgement about whether what the UK's contributes (however measured) to the EU budget could be better spent on other public projects or whether the 'membership fee' yields sufficient benefits to be justified is beyond the scope of this paper. But the evidence is clear that, although it is a net contributor to an extent comparable with several other Member States of a similar level of prosperity, the UK does not face an unfair share of the burden of the gross costs of paying for Europe.

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