

Hans Pitlik

Spending Priorities in the EU Budget 2007–2013: The Perspective of Fiscal Federalism

The new financial framework of the EU for the years from 2007 to 2013 provides for total liabilities amounting to € 864 billion. The budget thereby just slightly exceeds 1 percent of aggregate national income of the 27 member states. However, the composition of expenditure corresponds only to some extent to concepts developed by the theory of fiscal federalism for an optimal allocation of economic responsibilities between the Union and its member states. From a normative perspective, a readjustment of funds would be desirable in favour of policy areas for which a genuine European responsibility can indeed be justified (e.g., basic research)

Hans Pitlik is an economist at WIFO. The author is grateful to Fritz Breuss for useful and constructive comments. The data were processed and analysed with the assistance of Martha Steiner • E-mail-address: Hans.Pitlik@wifo.ac.at

In May 2006, after long and controversial negotiations, the new EU financial framework for the period 2007-2013 was formally adopted by inter-institutional agreement between the European Parliament, the European Commission and the European Council. The financial framework (formerly "financial perspectives") sets binding ceilings for the Community expenditure and is the major base for the annual budgetary procedure. Also the composition of expenditure for the coming years is fixed by means of strictly defined headings. The financial framework therefore conveys the priorities and strategic goals of EU policy to the extent that they are reflected in budgetary flows.

The compromise already negotiated under the Austrian Council presidency appears, however, not to be to the entire satisfaction of the three institutions. In an additional declaration, the Commission has been invited to "undertake a full, wide-ranging review covering all aspects of EU spending, including the Common Agricultural Policy, and of resources, including the UK rebate, and to report in 2008-2009" (*European Union*, 2006). Deliberations on a reform of the expenditure structure of the budget should, however, start from the fundamental question on the allocation of responsibilities for different policy areas between the Union and the member states on the basis of the principle of subsidiarity.

The economic literature deals with the problem of vertical allocation of economic responsibilities by level of government mainly in the context of the theory of fiscal federalism. Against this background, the following article analyses spending priorities of the EU as laid down in the financial framework 2007-2013 and in the Commission draft budget for 2007. The revenue side of the budget is not considered here.

Since the "Delors I package" of 1988 annual budgetary planning in the EU is subject to a multi-annual financial framework in which the overall ceiling and the composition of spending is defined. In technical terms, both the financial framework and the annual budgets distinguish between funds for "commitments" and for "payments". Commitment appropriations set the limit for the financial obligations that may be incurred in the fiscal year. However, the resulting budgetary incidence will possibly fall only into subsequent years. The actual expenditure arising in a particular fiscal year is labelled payment appropriations. Liability and payment appropriations are not always congruent, since many EU programmes stretch out over several years

**EU financial framework
and draft budget 2007**

and recipients do not always claim the total of funds to which they are entitled in the target year.

The new financial framework for the seven-year period involves commitments totalling € 864.3 billion and payments of € 820.8 billion (at 2004 prices, respectively; Table 1). On annual average, planned commitments amount to around € 123.5 billion and payments to € 117.3 billion. As related to EU gross national income (GNI) estimated for the period 2007 – 2013, commitments correspond to 1.05 percent and payments to 1 percent. Over the period from 2007 to 2013, commitments are set to decline from 1.1 percent to 1.01 percent and payments from 1.06 percent to 0.94 percent of GNI. As in the last few years, the ceiling for own resources, unchanged at 1.24 percent of GNI, will not be fully exhausted in order to retain room for manoeuvre for unforeseen expenditure.

Budgetary volume of the financial framework 2007-2013

Table 1: EU financial framework 2007-2013

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2007-2013 total |
|---|---|---------|---------|---------|---------|---------|---------|-----------------|
| | Million €, at 2004 prices | | | | | | | |
| <i>Commitment appropriations</i> | | | | | | | | |
| 1. Sustainable growth | 51,267 | 52,415 | 53,616 | 54,294 | 55,368 | 56,876 | 58,303 | 382,139 |
| 1a. Competitiveness for growth and employment | 8,404 | 9,097 | 9,754 | 10,434 | 11,295 | 12,153 | 12,961 | 74,098 |
| 1b. Cohesion for growth and employment | 42,863 | 43,318 | 43,862 | 43,860 | 44,073 | 44,723 | 45,342 | 308,041 |
| 2. Preservation and management of natural resources | 54,985 | 54,322 | 53,666 | 53,035 | 52,400 | 51,775 | 51,161 | 371,344 |
| Market-related expenditure and direct payments | 43,120 | 42,697 | 42,279 | 41,864 | 41,453 | 41,047 | 40,645 | 293,105 |
| 3. Union citizenship, freedom, security and justice | 1,199 | 1,258 | 1,380 | 1,503 | 1,645 | 1,797 | 1,988 | 10,770 |
| 3a. freedom, security and justice | 600 | 690 | 790 | 910 | 1,050 | 1,200 | 1,390 | 6,630 |
| 3b. Union citizenship | 599 | 568 | 590 | 593 | 595 | 597 | 598 | 4,140 |
| 4. The EU as global partner | 6,199 | 6,469 | 6,739 | 7,009 | 7,339 | 7,679 | 8,029 | 49,463 |
| 5. Administration ¹ | 6,633 | 6,818 | 6,973 | 7,111 | 7,255 | 7,400 | 7,610 | 49,800 |
| 6. Compensation payments | 419 | 191 | 190 | | | | | 800 |
| <i>Commitment appropriations total</i> | 120,702 | 121,473 | 122,564 | 122,952 | 124,007 | 125,527 | 127,091 | 864,316 |
| <i>As a percentage of GNI</i> | 1.10 | 1.08 | 1.07 | 1.04 | 1.03 | 1.02 | 1.01 | 1.05 |
| <i>Payment appropriations total</i> | 116,650 | 119,620 | 111,990 | 118,280 | 115,860 | 119,410 | 118,970 | 820,780 |
| | As a percentage of GNI | | | | | | | |
| <i>Payment appropriations total</i> | 1.06 | 1.06 | 0.97 | 1.00 | 0.96 | 0.97 | 0.94 | 1.00 |
| <i>Own resources ceiling</i> | 1.24 | 1.24 | 1.24 | 1.24 | 1.24 | 1.24 | 1.24 | 1.24 |
| <i>Margin available</i> | 0.18 | 0.18 | 0.27 | 0.24 | 0.28 | 0.27 | 0.30 | 0.24 |
| | Share of total commitment appropriations in percent | | | | | | | |
| <i>Commitment appropriations</i> | | | | | | | | |
| 1. Sustainable growth | 42.5 | 43.1 | 43.7 | 44.2 | 44.6 | 45.3 | 45.9 | 44.2 |
| 1a. Competitiveness for growth and employment | 7.0 | 7.5 | 8.0 | 8.5 | 9.1 | 9.7 | 10.2 | 8.6 |
| 1b. Cohesion for growth and employment | 35.5 | 35.7 | 35.8 | 35.7 | 35.5 | 35.6 | 35.7 | 35.6 |
| 2. Preservation and management of natural resources | 45.6 | 44.7 | 43.8 | 43.1 | 42.3 | 41.2 | 40.3 | 43.0 |
| Market-related expenditure and direct payments | 35.7 | 35.1 | 34.5 | 34.0 | 33.4 | 32.7 | 32.0 | 33.9 |
| 3. Union citizenship, freedom, security and justice | 1.0 | 1.0 | 1.1 | 1.2 | 1.3 | 1.4 | 1.6 | 1.2 |
| 3a. freedom, security and justice | 0.5 | 0.6 | 0.6 | 0.7 | 0.8 | 1.0 | 1.1 | 0.8 |
| 3b. Union citizenship | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| 4. The EU as global partner | 5.1 | 5.3 | 5.5 | 5.7 | 5.9 | 6.1 | 6.3 | 5.7 |
| 5. Administration ¹) | 5.5 | 5.6 | 5.7 | 5.8 | 5.9 | 5.9 | 6.0 | 5.8 |
| 6. Compensation payments | 0.3 | 0.2 | 0.2 | | | | | 0.1 |
| <i>Commitment appropriations total</i> | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: European Union. – ¹ Expenditure for pensions included here are in net terms and exclude pension contributions by staff up to a level of € 500 million (2007-2013, at 2004 prices).

In the financial framework 2007-2013, the budget structure has been changed from the earlier 2000-2006 planning period. After the re-arrangement, there are six (formerly eight) major headings, designed to reflect the political spending priorities of the EU. For the sake of simplification, the following presentation is confined to documented commitment appropriations at prices of 2004.

The largest single budgetary item are the funds for "Sustainable growth" listed under heading 1, to a total amount of € 382.1 billion or 44.2 percent of all commitments. On average over the seven-year period, around € 54.6 billion are planned per year,

Strategic spending priorities of the financial framework 2007-2013

rising from € 51.3 billion in 2007 to € 58.3 billion in 2013, corresponding to an increase by 13.6 percent. The share of the total budget goes up from 42.5 percent in 2007 to 45.9 percent in 2013.

Heading 1 includes first, appropriations for structural and cohesion policy (sub-heading 1b) of a total € 308 billion or 35.6 percent of all commitments, and second, in sub-heading 1a resources for "Competitiveness for growth and employment" (€ 74.1 billion or 8.6 percent of commitments). Within heading 1, structural shifts will occur over the planning period: while the share of "Competition expenditure" is to increase from 7 percent of all commitment appropriations in 2007 to 10.2 percent in 2013, the share of the structural and cohesion funds remains broadly constant, despite a slight increase in the nominal figures.

The second-largest budgetary heading is titled "Preservation and management of natural resources". With planned commitments amounting to € 371.3 billion, it accounts for 43 percent of the seven-year budget. This heading 2 comprises essentially the funds for the Common Agricultural Policy (including fishery). Market-related expenditure and direct payments, equal to 33.9 percent of the budget, constitute a significantly larger share of agricultural resources than the programmes for the promotion of rural development. Overall, from 2007 to 2013, expenditure is set to decline from almost € 55 billion to € 51.1 billion. The share of total commitment appropriations is thereby reduced from 45.6 percent to 40.3 percent. Compared with earlier budgets, where agriculture sometimes claimed more than 80 percent of total EU funds, this item has clearly lost importance.

Clearly less important in quantitative terms are the other four major headings of the financial framework. The overhead administrative expenditure (including that for non-active personnel) of the EU institutions is planned at € 49.8 billion or 5.8 percent of the total budget. From 2007 to 2013 an increase by almost 15 percent is foreseen, from € 6.6 to € 7.6 billion per year, mainly on account of EU enlargement. Some 5.7 percent of all commitments go to heading 4, labelled "the EU as a global partner". It includes primarily resources for development aid, support for accession candidates and non-accession-candidates ("European Neighbourhood Policy"). Also included are provisions for humanitarian aid and for the Common Foreign and Security Policy (CFSP). The total volume of commitments over the planning period amounts to € 49.5 billion.

About 1.2 percent of total funds, € 10.8 billion, are assigned to heading 3. Key items here are the steering of migration flows in the context of the European Refugees Fund and a fund for the integration of citizens from third countries, as well as new programmes for the protection of civil rights and the fight against terrorism under the partial heading of "Freedom, security and justice". Financial resources for cultural, youth, health and media policy are provided under the sub-heading of "Union citizenship". Heading 6 ("Compensations") includes special funds for Romania and Bulgaria in view of their EU accession, totalling € 800 million for the years from 2007 to 2009.

Almost at the same time of the adoption of the new financial framework, the Commission submitted its draft budget for 2007. It contains a more detailed breakdown of expenditure by policy area than the financial framework. This illustrates by which means the EU intends to achieve the strategic objectives laid down in the grid of budget headings. The draft Commission budget (Table 2) is a first proposal, not a final decision as during the budgetary process Council and Parliament often make changes in the details.

According to the draft 2007 budget, commitment appropriations amount to a total € 126.8 billion or just above 1 percent of aggregate EU GDP. For total payment appropriations, the Commission proposal of € 116.4 billion even remains slightly below the benchmark of 1 percent of member states' gross national income. Thereby, the proposed budgetary resources for an enlarged EU of 27 member states amount to € 239 per capita.

**Draft budget 2007 by the
European Commission**

Table 2: Policy areas in the 2006 budget and the draft 2007 budget

| | Commitments | | | | According to EC Treaty | Responsibility of the Union | |
|--|-------------------|-----------|--------------------------------------|----------------------------------|------------------------|-----------------------------|--|
| | 2006 Million € | 2007 | 2006-07 Percent- age change | 2007 Percent- age share | | According to EC Treaty | According to fiscal federalism theory |
| Economics and financial affairs | 455.4 | 516.3 | + 13.4 | 0.4 | | | Horizontal task |
| Enterprise | 371.7 | 524.1 | + 41.0 | 0.4 | S-C-S | Rather no | Industrial policy |
| Competition | 68.4 | 71.8 | + 4.9 | 0.1 | Exclusive | Yes | Internal market relevance possibly in future |
| Employment and social affairs | 11,906.8 | 11,426.1 | - 4.0 | 9.0 | S-C-S, shared | Rather no | |
| Agriculture and rural development | 55,407.4 | 55,880.1 | + 0.9 | 44.1 | Shared | Very limited | Agricultural environment |
| Energy and transport | 1,433.2 | 1,795.9 | + 25.3 | 1.4 | Shared | Rather yes | Trans-European networks |
| Environment | 326.3 | 350.5 | + 7.4 | 0.3 | Shared | Rather yes | EU-wide environmental problems |
| Research | 3,497.1 | 3,564.7 | + 1.9 | 2.8 | Shared | Only shared | |
| Information society and media | 1,405.8 | 1,427.1 | + 1.5 | 1.1 | S-C-S | Controversial | Industrial policy |
| Direct research | 329.6 | 348.5 | + 5.7 | 0.3 | Shared | Only shared | Basic research |
| Fishery and maritime affairs | 1,062.0 | 955.2 | - 10.1 | 0.8 | Shared | Very limited | Environmental protection |
| Internal market | 56.5 | 56.4 | - 0.3 | 0.0 | Shared | Yes | |
| Regional policy | 28,720.6 | 34,679.3 | + 20.7 | 27.3 | Shared | Rather yes | European fiscal compensation scheme |
| Taxation and customs union | 107.1 | 108.9 | + 1.6 | 0.1 | Exclusive | (Rather) yes | Competition rules |
| Education and culture | 989.5 | 1,209.1 | + 22.2 | 1.0 | S-C-S | Controversial | Possibly in future |
| Communication | 179.9 | 186.4 | + 3.6 | 0.1 | | | Horizontal task |
| Health and consumer protection | 529.6 | 544.7 | + 2.9 | 0.4 | Shared, partly S-C-S | Limited | |
| Area of freedom, security and justice | 588.2 | 619.0 | + 5.2 | 0.5 | Shared | Yes | |
| External relations | 3,439.6 | 3,415.0 | - 0.7 | 2.7 | Common | Rather yes | |
| Trade | 64.8 | 70.0 | + 8.1 | 0.1 | Exclusive | Yes | |
| Development and relations with ACP countries | 1,081.9 | 1,234.0 | + 14.1 | 1.0 | Shared | Rather yes | |
| Enlargement | 2,198.0 | 1,056.6 | - 51.9 | 0.8 | Exclusive | Yes | |
| Humanitarian aid | 719.0 | 749.7 | + 4.3 | 0.6 | Shared | Yes | External relations |
| Fight against fraud | 63.6 | 66.5 | + 4.5 | 0.1 | | | Horizontal task |
| Policy coordination and Commission legal service | 159.7 | 168.8 | + 5.7 | 0.1 | | | Horizontal task |
| Administration | 886.5 | 922.9 | + 4.1 | 0.7 | | | Horizontal task |
| Budget | 1,141.9 | 512.6 | - 55.1 | 0.4 | | | Horizontal task |
| Audit | 9.7 | 9.2 | - 5.4 | 0.0 | | | Horizontal task |
| Statistics | 117.2 | 121.4 | + 3.6 | 0.1 | | | Horizontal task |
| Pensions | 945.2 | 997.5 | + 5.5 | 0.8 | | | Horizontal task |
| Language services | 346.6 | 359.0 | + 3.6 | 0.3 | | | Horizontal task |
| Reserves | 229.0 | 234.5 | + 2.4 | 0.2 | | Unclear | |
| Commission total | 118,837.8 | 124,181.4 | + 4.5 | 97.9 | | | |
| Other institutions ¹ | 2,459.5 | 2,642.7 | | 2.1 | | | Horizontal task |
| Total | 121,297.3 | 126,824.1 | + 4.6 | 100.0 | | | |

Source: European Commission. S-C-S . . . Support-, Coordination- and Supplementary measures. - ¹ Excluding retirement benefits.

Overall, the draft budget provides for an increase in budgetary commitments by 4.6 percent over 2006. By far the largest items are agricultural and regional policy, with € 55.9 billion and € 34.7 billion, respectively. Together, they account for 71.4 percent of total commitments in 2007, including the means for fishery even for 72.2 percent. Compared with 2006, agricultural funds are only marginally higher (+0.9 percent), whereas those for regional policy are raised by 21 percent, far above the average rate. The third-largest budgetary item is the "employment and social policy" area, with a total of € 11.4 billion or 9 percent of total funds. These funds have been cut by 4 percent from the previous year.

Much lower are outlays planned for other budget items. For direct research and research promotion, only about € 3.9 billion are foreseen (in 2006 € 3.8 billion), for the external policies of "foreign relations", "development and relations with the ACP countries" and "humanitarian aid" together € 5.4 billion or 4.3 percent of total commitments. All other items are planned at a share of less than 2 percent of overall funds. The strongest increases vis-à-vis 2006, apart from regional policy, are recorded for "enterprises" (+41 percent), "energy and transport" (+25 percent) and "education and culture" (+22 percent).

In dealing with the issue of which government responsibilities should be transferred to the Union and which ones should remain with the member states, research in public finance usually resorts to the theory of fiscal federalism (see, e.g., *Tabellini, 2003, Breuss – Eller, 2004, Caesar, 2004, Heinemann, 2005*). In the context of this approach, which is based on pioneer work by *Musgrave (1959)* und *Oates (1972)*, the "optimal" political decision level for each single policy area is identified on the basis of cost-benefit considerations. The notion is that centralisation and decentralisation each have specific advantages and drawbacks that may differ from one government function to another. Setting relative benefits and costs of (de)centralisation of responsibilities against each other will yield an appropriate allocation of responsibilities to the different territorial authorities along the lines of the principle of subsidiarity. The objective is, in essence, to find an efficient multi-level governance structure for the public sector.

Starting point of this approach is the consideration that public services differ in their benefit regions. Thus, one distinguishes between local, regional, national and supra-national public goods. According to the "principle of fiscal equivalence" (*Olson, 1969*), the responsibility for the provision of a public good should always be conferred to the territorial authority where the community of beneficiaries corresponds to that of taxpayers. If the benefits of public goods provided by one country extend also to the inhabitants of neighbouring countries, the overall supply of public goods will be sub-optimal on account of these spill-over effects.

By centralising the responsibility, external effects can be internalised and a welfare-optimal supply of public goods will be generated. However, centralisation does not necessarily mean that the entire responsibility rests with the higher-ranking government level. It is also conceivable that the central level, via financial transfers, provides incentives to the sub-central authorities to take into account the spill-overs of their policy decisions (*Oates, 1972*). A co-financing of public tasks and the sharing of responsibilities between different government levels in a federal state may be interpreted as intermediate steps on the way towards full centralisation. The centralisation of responsibilities may also be meaningful for public goods and services offering substantial economies of scale in consumption. This is based on the fact that certain goods, due to their non-divisibility, may be supplied at lower cost for large communities than in smaller units¹.

The advantages of a centralised supply of public goods have to be weighed against non-negligible disadvantages. A fundamental advantage of decentralised responsibilities for economic policy is seen in the fact that policy can better adapt to inter-regional differences in individual preferences. Particularly in the case where preferences of the population as to the desirable quantity and quality of public goods differ markedly across countries, a closer tie between policy and the citizen as well as lower information and dissatisfaction costs speak in favour of decentralised responsibilities (*Oates, 1972*). A general perception is that the centralisation of responsibilities tends to work in favour of uniform policies. With a view to the "optimal" allocation of responsibilities, there is thus a conflict between the supply of public goods according to popular preferences on the one hand, and the internalisation of regional external effects and the exploitation of economies of scale, on the other (*Alesina – Angeloni – Etro, 2005*)².

If one follows these considerations, potential candidates for EU responsibilities would be policy areas where benefits of policy action extend EU-wide or where economies of scale in consumption are large so that they can be realised only at the EU level. In the absence of such conditions, the individual member states (or, where appropri-

¹ The concept of returns to scale in consumption refers to the principle of declining cost per beneficiary of a public good with a rising number of (potential) beneficiaries. This ought to be distinguished from economies of scale derived from production technology, i.e., declining average cost per unit of output with increasing quantity of output. Both concepts should be strictly separated (*Musgrave, 1959*). Only where supply and production process cannot be separated from each other, economies of scale in production offer a justification for a centralisation of responsibilities.

² More recent research discards the a-priori assumption of a "one size fits all" policy conducted by the central level. Nevertheless, according to *Besley – Coate (2003)*, the trade off referred to here continues to exist even if the central level is able to provide collective goods in a regionally differentiated way.

The EU budget in the light of the theory of fiscal federalism

Centralisation versus decentralisation: the theory of fiscal federalism

ate, regional or local territorial authorities) should assume the responsibility of providing the public good in question. If there are spill-overs and economies of scale below the EU level, a co-operation between the countries concerned may be advisable, in order to establish a link between beneficiaries, decision makers and the tax payers for a particular public good.

For a rational allocation of responsibilities between the EU and the member states is also important, to what extent a competition between countries for internationally mobile companies and taxpayers is welfare-enhancing. According to the advocates of a competitive solution, in case of decentralised political responsibilities population and firms can reveal their preferences for different sets of taxes and public services by choosing where to reside or produce (*Tiebout, 1956*). Competition between the territorial authorities would also promote the elaboration of innovative policy approaches ("laboratory federalism", *Oates, 1999*), and member states' governments would have stronger incentives to align their policy proposals to people's preferences. In this way, a competition between decentralised entities would also contribute to "a limitation of the exploitation power of the Leviathan state" desirable from the political economy point of view (*Brennan – Buchanan, 1980*).

Opposed to such a positive interpretation of inter-governmental competition is the view that the competition for mobile factors of production would set in motion a circle of deregulation in major policy areas. The risk of a "race to the bottom" is seen in particular for capital taxation, threatening the financing of public goods and services (e. g., *Wildasin – Wilson, 2004*). According to this view, such competition holds the risk of an erosion of the welfare state and of desirable regulations at the national level, such as for working conditions, environmental protection or the framework for competition (*Sinn, 1997*).

Building upon these general criteria, several authors (e. g., *Breuss – Eller, 2004, Caesar, 2004, Alesina – Angeloni – Schuknecht, 2005, Feld, 2005*) have elaborated catalogues of potential policy responsibilities for the EU. There is a general consensus that core competencies of the Community should be in policy areas where there are significant economies of scale or spill-overs of benefits at the European level and where preferences are largely homogeneous. Although opinions are divided as to the identification of particular policy areas, EU competencies are widely recognised in the areas of

- protection of basic freedoms,
- preservation of a competitive framework, including control of member states' subsidies policy,
- common foreign policy.

As far as competition policy is concerned, this proposition is not without problems since views about the role of competition and the competitive framework differ to a considerable extent. Hence, homogeneous preferences can be assumed only subject to strong qualifications. Besides, not all problems of competition policy touch upon the smooth functioning of the Internal Market. From this angle, a sharing of responsibilities between the Community and the member states appears to make sense. In general, these policy areas mainly require intervention of a regulative and co-ordinating kind to secure the functioning of the Single Market, with only minor budgetary implications³.

If, against this background, one adds up the expenditure of the draft 2007 budget allocated to the items of "Competition", "Internal Market", "trade" as well as "Area of freedom, security and justice" as the core competencies of the Community, one obtains a total of around € 800 million. To this should be added the item of "Taxation and customs union" with slightly more than € 100 million, which may also be subsumed under these core competencies. However, while common tariffs are part of the Common Foreign Trade Policy, an EU responsibility for tax policy can be ac-

³ In a monetary union, monetary policy should also be centralised institutionally, as put into practice with the European System of Central Banks. The issue whether the countries forming the euro area represent an optimal currency area is not dealt with in the present context (see, e.g., *Baldwin – Wyplosz, 2006*).

Which spending responsibilities for the EU?

Regulative policy areas for the functioning of the Internal Market

knowledge without reservation insofar as it concerns the removal of tax-related obstacles to the functioning of the Internal Market. Overall, these tasks account for 0.8 percent of total financial resources.

In a number of policy areas, an independent EU responsibility is contested, due to significant differences in preferences between countries which may limit or even outweigh the possible benefits from exploiting increasing returns to scale and an internalisation of regional external effects. Differences in preferences arise mainly from the welfare differential between the national economies and from differing norms and value systems. In particular, this concerns the policy areas of

- foreign and security policy,
- enlargement and development aid policy,
- international and global (as opposed to regional and local) environmental policy,
- trans-European networks for energy and transport,
- research policy,
- education policy.

In principle, foreign and domestic security are (nearly) pure public goods with sizeable returns to scale in consumption (*Samuelson, 1954*). In view of the clear nature of foreign and security policy as a collective good, at least a co-ordinating role of the EU would seem appropriate (*Tabellini, 2003*). With the same argument, tasks of co-ordination can be justified for cross-border issues of internal security such as the fight against terrorism. Furthermore, EU responsibilities are judged in the areas of enlargement and development aid policy, based on the consideration that all member states would benefit from progress in these areas, e.g., from a reduction of poverty-driven migration flows or the opening of new markets. Adding also expenditure on humanitarian aid and emergency help, the foreign- and security-related policy areas account for some € 6.7 billion or 5.3 percent of the overall budget.

The budget draft for 2007 provides for expenditure of € 350 million for environmental policy. An independent EU responsibility in this area can be justified by the existence of international and global environmental problems, despite large differences in preferences between countries (*Alesina – Angeloni – Schuknecht, 2005*). National and regional environmental problems should be addressed at the level of the member states or even below. EU-wide external effects and returns to scale undoubtedly accrue in the area of energy and transport, notably in the context of the Trans-European networks (TEN), such that the need for co-ordination by the Community is evident. Overall, some € 1.8 billion are allocated to energy and transport in 2007, corresponding to 1.4 percent of total commitments, of which € 0.8 billion for the TEN.

The draft budget 2007 foresees € 3.9 billion or slightly more than 3 percent of overall spending for direct research and research promotion⁴. Under this heading, notably the creation of a European research area may qualify as a EU responsibility, if supra-national external benefits and returns to scale exist (*Gros – Micossi, 2005, Hölzl, 2006*). According to the majority view, this mainly holds for basic research and for large-scale projects the results of which will become commercially viable only in the distant future (*Schweickert, 2005*). As a co-provider of research subsidies, the EU can also contribute towards reinforcing the quest for excellence which, however, discards an exclusive EU responsibility. Co-ordinating activities may also be needed in order to counter any obstacles to the free flow of information created by the member states (*Pelkmans – Casey, 2004*).

In 2007, the EU provides € 1.2 billion in funds for education and cultural policy. At present, education policy calls mainly for regulatory EU competencies in the interest of greater mobility of students and labour via mutual recognition of educational qualifications. Should the removal of barriers in this regard lead to a high degree of

⁴ In addition, there are funds amounting to € 1.9 billion for research, which are included under other budgetary headings.

Policy areas with significant differences in preferences between countries

international labour mobility, more important responsibilities with financial implications would accrue to the EU if countries would become free-riders of educational efforts undertaken by other member states. Nevertheless, the arguments for conferring such financial responsibilities to the EU as from now are not very strong, given that (part of) the existing differences in national education systems are probably the reflection of heterogeneous preferences. Moreover, different approaches to educational policy give rise to a desirable competition for the best outcomes. In the area of cultural policy, any EU-wide returns to scale or benefit spill-overs are difficult to identify.

Generally, the view is held that industrial policy should rather not be counted among the tasks of the EU, since EU-wide spill-over effects can hardly be identified and industrial policy preferences differ significantly across member states (Alesina – Angeloni – Schuknecht, 2005). Pelkmans (2001) invokes in support of EU competencies that competition-distorting national subsidies would be replaced by measures of support from the supra-national level. However, this argument becomes less relevant if the control of subsidies is effective. Part of the EU expenditure for industrial policy is recorded under the budget heading of "enterprises", with a total of € 524 million. But industrial policy subsidies are also included under the items of "research", "media" and "energy and transport". Overall, however, planned EU expenditure is relatively small, also because the tasks of the Community are meant to be only complementary to the measures taken by the member states.

The budget heading of "employment and social policy" provides for funds to the amount of € 11.4 billion in 2007, equivalent to 9 percent of budgetary commitments⁵. Yet, from the fiscal federalism perspective it is not clear why the EU should be active in these areas with a sizeable amount of financial resources. Thus, it would be difficult to argue that problems of structural adjustment on national labour markets ought to be cushioned by EU-wide employment policy interventions. It is up to the member states in the first place to address the largely home-made problems by labour market measures that can be better designed according to the particular national circumstances (Berthold – Fehn, 2002). Strongly heterogeneous preferences also imply that the Union should hardly become active in the area of social policy. First, there are large differences between individual member states' level of welfare, with the consequence of diverging perceptions about the appropriate policy in favour of social equality; second, attitudes towards a policy of redistribution are shaped by socio-cultural factors and differ markedly between the member states.

Nevertheless, social policy programmes may be reasonable if labour mobility across countries is high (e. g., Wildasin, 1998). In that case, the theory of fiscal federalism recommends redistributive policy to be centralised (Oates, 1972). Thus, a responsibility for setting minimum standards could be attributed to the EU, in order to prevent a "race to the bottom" or "social dumping". Admittedly, however, there is no convincing empirical evidence in the literature for a race to the bottom actually taking place between welfare states (e. g., Hines, 2006). One should also bear in mind that setting high minimum standards would take away a competitive advantage from the less affluent member states.

For regional policy with a view to supporting convergence and cohesion, the draft 2007 budget foresees expenditure of around € 35 billion or 27.3 percent of total commitment appropriations. As a rule, EU actions are justified by a combination of arguments invoking allocation, distribution as well as stabilisation considerations (e. g., Pelkmans, 2001). From the allocation point of view, support of disadvantaged regions may contribute towards a more efficient geographical location of the factors of production, thereby enhancing the growth potential of the EU overall. However, due to agglomeration effects a higher degree of regional concentration and stronger divergence of economic activity may rather foster economic growth (Krugman, 1991). In that case support of structurally weak areas may render counter-productive. Yet, this does not advise against an EU responsibility in principle, but in favour of a critical review of the regional support strategy. In general, the ad-

Industrial, employment and social policy

Structural and cohesion policy in favour of disadvantaged regions

⁵ The major financial instrument is the European Social Fund, whereby this budget heading is also given a regional policy dimension.

vantage of better information about the growth potential of a particular region would speak in favour of responsibilities being assigned to the national level. In all, the current practice of shared responsibilities between the EU and the national level appears justified.

The distributional motivation of EU regional policy rests upon considerations of a more equal supply of public goods that are difficult to assess from an economic point of view. To the extent that there is EU-wide consensus about this goal, this could provide an argument for a financial burden sharing arrangement at the EU level, guided primarily by the differences in the economic potential between member states. However, this would require non-earmarked financial transfers between richer and poorer member states rather than project-related subsidies. In any case it is uncertain to what extent such solidarity between countries in favour of redistribution exists. Moreover, national experience with inter-regional financial transfer mechanisms suggests that negative incentives for donors and receivers alike may substantially reduce the advantages of financial redistribution between regions.

From a stabilisation policy perspective, transfers from the EU to member states and regions may be justified by being a safeguard against asymmetric shocks. Especially if factor market rigidities and low international mobility inhibit an adjustment at the national or regional level, temporary support in the framework of a quasi-automatic EU financial burden sharing arrangement may be useful. Against such considerations it is argued that regional redistribution policy would reduce the pressure for the necessary adjustment of national factor markets. In addition, the EU budget of a total volume of 1 percent of aggregate EU GDP is probably too small as to effectively counter major shocks at the national level.

Putting all arguments together, arguments in favour of regional redistribution policy appear to be the most convincing ones from the fiscal federalism perspective. It is also guided by the assumption that international redistribution in favour of the poorer countries will encourage them to open their markets. If one agrees to a regional policy concern along this line, an EU responsibility is a logical consequence, since all member states will benefit from its effects whereas for individual governments it would hardly be rational to engage in such transfers. From the national perspective, such action amounts to a public good with benefits accruing EU-wide, the provision of which is to be organised at the supra-national level.

The expenditure block still dominating the EU budget is the Common Agricultural Policy (CAP). Overall, almost € 57 billion are planned in 2007 for agriculture (including fishery). In this regard, a distinction has to be made between market intervention and direct subsidies on the one hand, claiming a total of around € 44.5 billion (together with fishery policy), and policies for rural development on the other (some € 12.4 billion). Many economists hold the view that the arguments in favour of a policy of agricultural subsidies at the European level are not very convincing (e. g., *Hoeller – Louppe – Vergriete, 1996, Feld, 2005*). However, in this regard a more nuanced look at the problem is deemed appropriate.

It is questionable whether EU-wide agricultural market stability can be ensured via political intervention. In view of the possibility to buy agricultural products on world markets, the case for security of supply is rather weak. Therefore, the transition from market intervention to direct subsidies is to be welcomed from the economics perspective. However, the "first pillar" of the CAP (market-related expenditure and direct payments) is to serve primarily objectives related to the personal income distribution for which an EU responsibility can hardly be established under current circumstances. Moreover, the conflict regularly arising in budget negotiations between member states with a relatively important agricultural sector versus states with a less important agricultural sector indicates that national preferences cannot be assumed to be homogeneous across the EU. Neither can EU-wide spill-over effects or returns to scale of any significant degree be identified. Thus, from a fiscal federalism perspective, a good deal could be said in favour of a re-nationalisation of the "first pillar" of the CAP. In that case, however, agricultural subsidies would have to be subjected to strict control in order to prevent member states from outbidding each other with higher subsidies (*Schweickert, 2005*).

Agricultural policy

More favourable is the judgement for the programmes in support of rural development. Although economic arguments will hardly be found for permanent subsidies to a shrinking agricultural sector, temporary measures to facilitate structural adjustment may be envisaged in the context of a regional development strategy (Sapir *et al.*, 2003), although such measures, like those of social and employment policy, are rather considered appropriate at the national level. Nevertheless, a readjustment towards an ecologically-minded agricultural policy may justify an establishment of EU responsibilities. While the direct benefits of an environmentally responsible agricultural policy are predominantly local, such policy may still create positive effects at the international level which may not be fully recognised in national decisions. EU subsidies may also be justified if there were evidence for member states engaging in a "race to the bottom" with regard to national environmental standards. Overall, a case could be made for creating an EU responsibility for selected policy areas of the "second pillar" of the CAP.

Agricultural Policy at the EU Level: Alternative Approaches in its Support

The theory of fiscal federalism takes a sceptical view towards any sector-specific EU responsibility, including agricultural policy. It is grounded in the observation that the Common Agricultural Policy (CAP), while historically geared towards allocative objectives, has over time become an instrument of income maintenance for agricultural producers. Yet, according to the principles of fiscal equivalence and of subsidiarity, member states should be responsible for inter-personal income redistribution. Calls for a re-nationalisation of agricultural policy competences should nevertheless be treated with caution.

The economic theory of federalism is based upon the assumption that national governments consider themselves exclusively committed to the goal of maximising national welfare. An alternative view is held by political economy approaches which explicitly integrate the self-interests of the political actors. In that sense, the EU budget is interpreted as the result of compromises negotiated among national governments that act in their interest of being re-elected and therefore have to mind the specific concerns of influential interest groups. Such powerful lobbies may block progress towards closer integration, if they fear disadvantages from further market liberalisation in Europe or are uncertain about their market prospects.

The inclusion of income-maintenance elements into the EU budget, which is criticised from a fiscal federalism perspective, may serve the purpose of compensating potential losers of increasing market integration in the member states (Bhagwati – Srinivasan, 1969). Thus, a transfer of agricultural policy to the European level in the early 1960s is seen in political economy terms as a concession to the powerful French farmers' lobby in order to weaken resistance against market opening. High flows from the EU budget to agricultural producers whose interests are by tradition strongly represented at the national level, are thus intended to compensate for (actual or believed) disadvantages of the integration process.

Against this background, the centralisation of agricultural policy at the European level may be criticised from a narrow economics perspective, but may also be taken as a political precondition (a "price") for progress in integration. In a similar way, the establishment of the structural and cohesion funds is interpreted as a compensation deal. This also explains why countries like Austria or Germany, which on balance can expect additional benefits from further market liberalisation, are ready in principle to accept being a net contributor to the system.

A possible consequence of the establishment of a European responsibility is that in more recent times agricultural policy has come under somewhat lower pressure from national interests in maintaining the status quo. Since the mid-1990s, the EU is steering the CAP towards reform with the aim of price liberalisation while strengthening incentives for more environment-friendly forms of agricultural production. This shifts back the emphasis towards allocative aspects of agricultural policy. From the theoretical point of view it is not entirely clear whether status-quo interests have a greater influence at the national or the European level. Whether or not these reforms could have been achieved in a regime of exclusively national responsibilities, remains an open question.

The core tasks of the EU as deriving from an economic theory of federalism are mainly such of regulation and co-ordination, hardly leading to major financial implications. A budget which only corresponds to some 1 percent of Gross National Income can therefore not necessarily be considered "too small". An issue worth further discussion is rather the composition of the EU budget. At present, some 10 percent of total budget resources are attributed to tasks for which a (shared) EU responsibility is deemed justified in principle, from the perspective of fiscal federalism (Table 2). Including necessary overhead spending on administration, the core tasks account for 15 percent of total resources. Regional policy claims some 27 percent of the budget. Even if there are doubts about the adequate implementation, it is probably, as cohesion policy, rightly allocated at the EU level. In addition, part of the

Assessment

spending on the "second pillar" of the CAP may also qualify as EU responsibility, notably for environmentally-oriented agricultural policy and support for rural development. Furthermore, social and educational policy have been identified as EU competences possibly requiring more financial resources in the future. Yet, more than half of all budgetary commitments in the 2007 budget are foreseen for policies for which an EU responsibility is difficult to reconcile with the principle of subsidiarity. This provides good reason to reflect upon a revision of the composition of expenditure by categories. Admittedly, results from the report to be submitted by the Commission on the subject will only feed into the negotiations for the next financial framework as from 2014, at the earliest.

At its meeting in Lisbon of March 2000, the European Council adopted a comprehensive and demanding catalogue of reform measures for economic, social and environmental development with the ambitious goal of making the EU by 2010 "the most competitive and dynamic knowledge-based economy in the world". However, in the context of a mid-term review, an ad-hoc group of experts found important deficits in the implementation of the strategy, which were considered to be due to the initiative being over-loaded with too many concerns in too many policy areas (Kok *et al.*, 2004). The design for a "Lisbon re-launch" focuses on the goals of sustained economic growth and job creation. The Commission underlines that the success of the strategy for growth and jobs hinges primarily on the determination of member states to implement structural reforms. It nevertheless recognises a co-responsibility of the Community for the achievement of the desired goals, whereby action at the national level needed the support from measures taken at the EU level (European Commission, 2005).

The focus on growth and employment as the principal economic policy goals is documented also in the financial framework 2007-2013, albeit mainly at face value, by re-grouping and re-naming of large expenditure categories under the heading of "sustained growth" (Begg, 2004). Around 80 percent of the funds allocated under this heading will go to the structural and cohesion funds whose positive effects on regional catching-up processes are contested (e. g., Boldrin – Canova, 2001). Only € 74 billion are earmarked for a strengthening of competitiveness. The projected expenditure on education and research included therein will undoubtedly have a positive impact on economic growth. Other expenditures in this category are more of a social policy nature whose growth-enhancing effect is often put in question, although, if carefully designed, they may also enhance the productive potential of an economy.

Essentially it is the implementation of the Internal Market within a stable institutional framework that is probably the key driver of growth and employment in the European Union. Nevertheless, political resistance of some member states against the extensive liberalisation of financial and service markets sought by the Commission and the compromise eventually achieved in November 2006 on the services directive show that even the core competence of the EU for regulation is limited. Only as a marginal observation it is noted that the very budget categories of "Competition" and "Internal Market" which beyond any doubt are conducive to stronger growth have almost entirely been included under the general administrative expenditure in the budget.

This rather sceptical assessment of the growth and employment effects emanating from the new EU budget is confirmed by the fact that market-related expenditure and direct subsidies for agriculture, though on a downward trend, still claim a dominant position in relation to other budget items. The largely petrifying impact on existing structures exerted by this part of agricultural spending has for some time been identified as an obstacle to further market integration (Alesina – Angeloni – Schuknecht, 2005). In line with such reasoning, the Sapir Report has recommended a re-nationalisation of agricultural policy and a stronger focussing on common growth objectives which should be reflected in a change in spending priorities in the EU budget (Sapir *et al.*, 2003). At an unchanged expenditure ceiling of around 1 percent of Gross National Income, the group of experts recommends that

The EU budget in the light of the Lisbon Agenda

- a growth fund (accounting for 45 percent of total expenditure) should mainly promote research and development, education and supra-national infrastructure build-up,
- financial compensation between richer and poorer member states should be institutionalised via a convergence fund (claiming 35 percent of total expenditure), and
- a structural adjustment fund (20 percent of total expenditure) be created, the disbursements of which should, however, not follow "regional" but "personal" criteria.

Apparently, the proposals by the group of experts did not play a major role in the 2005 budget negotiations. In any case, the newly adopted budget has little in common with them.

The revision clause introduced into the inter-institutional agreement of Spring 2006 provides for a non-biased review of the EU budgetary performance to be carried out in 2008-09. In particular the issue should be clarified, for which policy areas a Union of 27 member states of different levels of development should keep traditional responsibilities or increase them, be given new ones or possibly return them back to its Members. Following the approach of fiscal federalism, the primary EU responsibility lies in ensuring competition and the basic freedoms within the framework of the Internal Market, which requires relatively small amounts of financial resources. Whether other policy areas in which the Union is active are appropriately allocated at the supra-national level should be thoroughly examined. Almost one-half of the EU budget is devoted to items for which a genuine EU responsibility is difficult to justify from a fiscal federalism perspective. From a normative point of view, it would be desirable to re-allocate funds towards policy areas where such a central responsibility can indeed be justified.

Whatever such fundamental considerations may suggest, they are normally not at the centre of budgetary negotiations. An important, if not the overriding criterion in the political reckoning of governments is surely the net financial balance of EU membership, even if it is an economically questionable measure of the true net benefits of membership. One may welcome the intended openness to any result deriving from the upcoming mid-term review of the EU budget, although one should rather expect that a fundamental revision of the EU budget would face the same political obstacles as have emerged during the most recent negotiations. The benign neglect of the Sapir Report initiated by the Commission may also fall on all reform proposals advanced on the basis of the revision clause.

This raises the fundamental question to what extent fiscal federalism is relevant as a blueprint for the allocation of government responsibilities in an integrating Europe, since the concept abstracts from politically important factors such as lobbying by interest groups at the national and the EU level. An alternative approach taking into account also the political dimension (Caesar, 2004, Feld, 2005) explains the structure of the EU budget as the compensation of the losers in the integration process by the gainers. Following this approach, redistribution through agricultural and structural policy is not geared towards the economic goals emphasised by the fiscal federalism approach. Therefore, the normative theory of fiscal federalism focuses just on one aspect, though surely not the least important one, of the allocation of government responsibilities.

Alesina, A., Angeloni, I., Etro, F., "International Unions", *American Economic Review*, 2005, 95, pp. 602-615.

Alesina, A., Angeloni, I., Schuknecht, L., "What Does the European Union Do?", *Public Choice*, 2005, 123, pp. 275-319.

Baldwin, R., Wyplosz, C., *The Economics of European Integration*, Second Edition, London, 2006.

Begg, I., *The EU Budget: Common Future or Stuck in the Past?*, Centre for European Reform, Briefing Note, February 2004.

Summary and conclusions

References

Spending Priorities in the EU Budget for 2007-2013: The Perspective of Fiscal Federalism – Summary

Following difficult negotiations, the European institutions eventually, in May 2006, arrived at a consensus on a new Financial Framework for the European Union's budget over the years 2007 to 2013. In an additional declaration, the European Commission was invited to undertake a full review covering all aspects of EU spending until 2008-09. A mid-term review, however, should deal with the fundamental issue of which political tasks are best assigned to the EU and which tasks should be left to the responsibility of the member states. This problem is addressed by the economic theory of fiscal federalism.

According to the fiscal federalism approach assigning policy responsibilities to the EU is only appropriate if significant economies of scale are materialised at the European level and/or if European public goods will be provided. The scope of benefits derived from centralisation should compensate for the possible violation of heterogeneous policy preferences among member states. Consequently, fiscal federalism concludes that the EU should primarily hold responsibility for policies that guarantee proper functioning of the common market ("basic liberties"), international competition and external trade policy. Further policy domains which might be assigned to the EU in cooperation with the member states include foreign affairs, international environmental policy issues, infrastructures for international transports and energy, basic R&D policies and – with some qualifications – certain aspects of education policy. At present, fiscal federalism does not support EU competences as regards industrial policy, labour policy and social policies.

Regional policies should be assigned to the EU in order to facilitate cohesion among member states. This implies that the EU's current regional policy should change from project-orientation to unconditional transfers between rich and poor countries. From a theoretical point of view, the Common Agricultural Policy (CAP) might be reasonably assigned to the EU level for environmental purposes and, with some qualifications, to support structural adjustment in rural areas. Following the principles of fiscal federalism, income support policies for agricultural producers should not remain in the domain of the EU, but should be assigned to member states instead. As the CAP also serves the goal of alleviating political opposition to further liberalisation and market integration, any call for renationalising agricultural policies may yet be premature.

According to the theory of fiscal federalism, at present almost half of the Union's financial resources are allocated to spending categories in which EU responsibilities are questionable. From a normative point of view these outlays should be re-directed towards policies in which EU competences are more sensible, e.g., promotion of basic research activities.

- Berthold, N., Fehn, R., "Arbeitsmarktpolitik in der Europäischen Währungsunion", *Perspektiven der Wirtschaftspolitik*, 2002, 3, pp. 317-345.
- Besley, T., Coate, S., "Central versus Local Provision of Public Goods: A Political Economy Analysis", *Journal of Public Economics*, 2003, 87, pp. 2611-2637.
- Bhagwati, J. N., Srinivasan, T. N., "Optimal Intervention to Achieve Non-Economic Objectives", *Review of Economic Studies*, 1969, 36, pp. 27-38.
- Boldrin, M., Canova, F., "Inequality and Convergence: Reconsidering European Regional Policies", *Economic Policy*, 2001, 16, pp. 207-253.
- Brennan, G., Buchanan, J. M., *The Power to Tax*, Cambridge, 1980.
- Breuss, F., Eller, M., "The Optimal Decentralisation of Government Activity: Normative Recommendations for the European Constitution", *Constitutional Political Economy*, 2004, 15, pp. 27-76.
- Caesar, R., "Leitlinien für eine europäische Finanzverfassung", in Schäfer, W. (Ed.), *Zukunftsprobleme der europäischen Wirtschaftsverfassung*, Berlin, 2004, pp. 149-179.
- European Commission, *Gemeinsame Maßnahmen für Wachstum und Beschäftigung: Das Lissabon-Programm der Gemeinschaft*, Mitteilungen der Kommission an den Rat und das Europäische Parlament, KOM330 final, Brussels, 2005.
- European Union, "Interinstitutionelle Vereinbarung zwischen dem Europäischen Parlament, dem Rat und der Europäischen Kommission über die Haushaltsdisziplin und die wirtschaftliche Haushaltsführung vom 14. 6. 2006", *Amtsblatt der Europäischen Union*, 2006, (C 139/01).
- Feld, L., "Viel Lärm um nichts? Die Agenda 2007 der EU aus ökonomischer Sicht", *Integration*, 2005, 28, pp. 55-67.
- Gros, D., Micossi, S., "A Better Budget for the European Union. More Value for Money, More Money for Value", *CEPS Policy Brief*, 2005, (66).

- Heinemann, F., "EU-Finanzplanung 2007-2013. Haushaltsoptionen, Verteilungswirkungen und europäischer Mehrwert", Bertelsmann-Stiftung, Schriftenreihe "Europa Vordenken", 2005.
- Hines, J.R., "Will Social Welfare Expenditures Survive Tax Competition?", *Oxford Review of Economic Policy*, 2006, 22, pp. 330-348.
- Hoeller, P., Louppe, M. O., Vergriete, P., "Fiscal Relations within the European Union", OECD, Economics Department Working Paper, 1996, (163).
- Hölzl, W., *Cohesion and Excellence. Two Ways to a Better Europe?*, tip-Studie, WIFO, Vienna, 2006.
- Kok, W., et al., *Die Herausforderung annehmen. Die Lissabon-Strategie für Wachstum und Beschäftigung*, Luxembourg, 2004.
- Krugman, P., "Increasing Returns and Economic Geography", *Journal of Political Economy*, 1991, 99, pp. 483-499.
- Musgrave, R.A., *The Theory of Public Finance*, New York, 1959.
- Oates, W.E., *Fiscal Federalism*, New York, 1972.
- Oates, W.E., "An Essay on Fiscal Federalism", *Journal of Economic Literature*, 1999, 37, pp. 1120-1149.
- Olson, M., "The Principle of Fiscal Equivalence: The Division of Responsibilities among Different Levels of Government", *American Economic Review, Papers and Proceedings*, 1969, 59(2), pp. 479-487.
- Pelkmans, J., *European Integration*, Second Edition, Prentice Hall, 2001.
- Pelkmans, J., Casey, J.-P., "Can Europe Deliver Growth? The Sapir Report and Beyond", *BEEP Briefing*, 2004, (6).
- Samuelson, P.A., "The Pure Theory of Public Expenditure", *Review of Economics and Statistics*, 1954, 36, pp. 387-389.
- Sapir, A. et al., *An Agenda for a Growing Europe: Making the EU System Deliver*, Oxford, 2003.
- Schweickert, R., "Vor der nächsten Erweiterung – Herausforderungen und Reformbedarf der EU", *Die Weltwirtschaft*, 2005, (2), pp. 222-248.
- Sinn, H.W., "Das Selektionsprinzip und der Systemwettbewerb", in Oberhauser, A. (Ed.), *Fiskalföderalismus in Europa*, Berlin, 1997, pp. 11-53.
- Tabellini, G., "Principles of Policymaking in the European Union: An Economic Perspective", *CESifo Economic Studies*, 2003, 49, pp. 75-102.
- Tiebout, C.M., "A Pure Theory of Local Expenditures", *Journal of Political Economy*, 1956, 64, pp. 416-424.
- Wildasin, D.E., "Factor Mobility and Redistributive Policy: Local and International Perspectives", in Sorensen, P.B. (Ed.), *Public Finance in a Changing World*, London, 1998, pp. 151-192.
- Wildasin, D.E., Wilson, J., "Capital Tax Competition: Bane or Boon?", *Journal of Public Economics*, 2004, 88, pp. 1065-1091.