§ 4 Panel Discussion

Moderator: Hanno Kube

I. Introduction

Hanno Kube

We hope that everyone has had an enjoyable lunch break and is ready for our afternoon session. We had an excellent session this morning during which we analysed legal foundations and where we looked at possible future perspectives with regard to own resources, genuine EU taxes and debt financing. We now have the great chance to discuss the legal framework and in particular the policy options that are on the table with experts who are directly involved in the decision-making processes and the current negotiations. We are very grateful to have outstanding representatives of the respective institutions with us today. Let me briefly introduce them to you in the order of their introductory statements.

Jakob von Weizsäcker is Head of the Directorate-General I of the German Federal Ministry of Finance, the chief economist if I may say so. He is responsible for economic and fiscal policy strategy, international economy and finance. He is a former Member of the European Parliament and before that he has worked among others for the World Bank, for the think tank Bruegel and for the Ministry of Economic Affairs in Thuringia. He will tell us about the German Council presidency from the perspective of the German government's position. Thank you very much, Jakob, for being with us.

Marco Buti is Head of Cabinet of the Commissioner for Economic and Financial Affairs, *Paolo Gentiloni*, at the European Commission. He was the former Director-General for Economic and Financial Affairs and as a Florence and Oxford graduate in economics he has written extensively on macroeconomics and fiscal policy, on the Economic Monetary Union (EMU), the Stability and Growth Pact (SGP) and the EU budget. He is also professor at the EUI in Florence and in Brussels. Thank you, Marco, for illustrating the position of the Commission.

Then, she is not with us yet but will hopefully be with us in a second, Dr. *Franziska Brantner*, Member of the German Federal Parliament from the constituency of Heidelberg. She is a spokeswoman for EU politics for her party, Bündnis 90 - Die Grünen, the green party, and she is a member of the parliamentary Committee on European Union Affairs. She has studied politics and international relations at Sciences Po, Paris, and Columbia. She wrote her Ph.D. thesis on the United Nations, taught international politics and she has been involved in many projects and processes with the United Nations, the EU and the German Parliament. We hope to hear Ms. *Brantner's* position from the perspective of the German Federal Parliament that is just now very much involved with the implementation of the decisions that have been taken.

Last but not least, I am very happy to introduce Prof. Dr. *Clemens Fuest*. Mr. *Fuest* is professor at the University of Munich and president of the highly regarded and influential Munich based ifo Institute. He is one of the most prominent economists today and among others member and former chairman of the Advisory Board to the Ministry of Finance. Just recently, we have heard about that from *Edoardo Traversa*, Mr. *Fuest* together with *Jean Pisani-Ferry* presented a study on the financing of the EU to the informal ECOFIN meeting in September in Berlin. Mr. *Fuest*, thank you for sharing your insights and for taking the time to participate in our conference.

We have a great panel and we will see different points of view. Unfortunately, *Franziska Brantner* is not with us yet but I think we can start with introductory statements by *Jakob von Weizsäcker*, followed by *Marco Buti* and *Franziska Brantner*, as soon as she is available, as well as *Clemens Fuest*. Please spend ten to 15 minutes each on your statements after which we will have a short break and we will then continue with a second round of statements and a discussion.

I invite you to remain connected with your cameras so that everyone can see you as this is a panel discussion. Jakob, the floor is yours. Thank you.

II. Introductory Statements

1. Jakob von Weizsäcker

Thank you very much, Hanno. It is a pleasure to be here and I am delighted to be back in Heidelberg – even if only virtually – since Heidelberg is my city of birth. It also gives me a particular pleasure to display my views in this distinguished panel. I have known every panelist for a long time and I very much admire them for their expertise. We have already worked together very closely in different situations. Let me reveal the secret, Hanno, that we first met in Wales a very long time ago, when we were not even adults yet. We had a wonderful time there and our hair was still a bit stronger and Britain was still in the EU back then.

In the beginning, I would like to point out that, since this is a public event, I am not an official spokesperson of the German Ministry of Finance. The only thing I can offer are my personal views on these matters.

I am delighted about the title of the event, which is 'Solid Financing *of* the EU' (respectively '*Tragfähige EU-Finanzierung*'). For many years now, German economists and German lawyers have talked a lot about solid financing *within* the EU. This does make a lot of sense since we created the euro from which derives a 'common pool problem' that should not get out of hand. But unfortunately, at some point, this became a bit of a national obsession and for a while this was the only thing, as it seemed to me, that German lawyers and economists were able to talk about, although there are many other important and pressing EU problems and challenges. Sometimes it is also forgotten what an enormous achievement the EU is for the whole of Europe and for Germany in particular. I think financing *of* the EU is a topic that I very much like.

Now, before I say a couple of things about what might be suitable channels of funding, I want to first emphasize the objectives of funding. I think it is very useful to go back to *Richard Musgrave*'s idea of identifying the three reasons the fisc, at whatever level, might want to spend money. One is allocation, the second is distribution and thirdly, stabilization.

Regarding allocation, I believe it is becoming increasingly clear that there is enormous value added in many areas if we organize things at the European rather than at the national level. To give you some examples, this is the case in foreign security policy, in development and in climate policy, in some aspects of digitalization, in many aspects of research and development, concerning humanitarian treatment of refugees and border protection in the Schengen Area and so on. In many areas, if we were to pool our resources and our decision-making powers, there could be much better outcomes than if every member state tries to address these issues by itself. I believe this to be a very important point. It is quite fundamental but I think we are increasingly realizing that we cannot or rather should not go on in many of these areas as we have been in the past. If we were to do that, it would not require a lot of extra taxes. In fact, there is value added, so maybe even the overall funding in some areas could shrink. But we would need to use our resources more efficiently and to move certain funds from the national to the European level in order to being able to achieve that.

The second objective of funding is distribution. While it is true that in a number of federations, the welfare state is organized at the federal level –

in the US, for example, there are social security, Medicare and Medicaid as large welfare programs at the national level – I believe that in Europe, for the time being, we feel that resources are channelled more to help countries converge upwards, to develop faster structural funds and so on. That is probably the main distribution program that we have. Closely linked with this is the question of design, which is big enough.

Thirdly, there is stabilization, regarding which we have certainly learned the hard way in the last crisis and I am of the opinion that we are learning a little bit faster in this crisis. When the euro was created, the challenge to stabilize it was underestimated to some extent. In the financial crisis, we saw the questions of financial stability and of multiple equilibria for government debts needed to be addressed. That is why the Banking Union and the ESM were created. Now we are in a very special situation, which nobody had expected when the euro was created, which is that we are at the Zero lower bound. As a consequence, monetary policy has a much harder time to do the 'heavy lifting' in terms of stabilization. This is why fiscal policy needs to play a more important role than previously at the Zero lower bound and it is quite relevant in the current crisis. I believe having this in mind is important for setting the stage a little bit.

Now, luckily, there is still some time left. The most important project of the German Council presidency was not only to get Next Generation EU in principle politically off the ground, but to now also find a suitable compromise between the European Parliament and the European Council so that we can actually move ahead with it. The major project in a unique crisis like that is to show an important element of solidarity with the most affected Member States and to mobilize resources beyond the current budget's limits, therefore having a rather large volume of European debts. We have had European debts before, as I am sure *Marco Buti* will be able to tell you, but this time it is of a greater magnitude – funding future oriented programs, not least in the areas of climate change and digitalization, but also creating the fiscal space for health responses and generally having an economic response to the crisis situation.

Of course, one can do that without having own resources, one can just use GNI-related revenues in order to service those debts. But if we do that exclusively, it is questionable whether it is a satisfactory solution and whether it is going to move the EU institutionally forward. My view early on in that debate is that we should also look at the current situation as an 'Hamiltonian moment' or an 'Hamiltonian opportunity'. *Alexander Hamilton* was, of course, Secretary of the Treasury who created the modern US treasury. The idea is to look at a number potential sources of funding. I am not sure if the plastic tax is going to be the main source of funding for the EU but there are many more ideas, also on carbon related revenues. I congratulate *Clemens Fuest* and, unfortunately he is not here, *Jean Pisani-Ferry* who I think wrote an excellent report for the informal ECOFIN on how to use carbon related revenues to collect own resources. There are other ideas as well, like the Financial Transaction Tax, the idea of digital taxation and so on. I am sure we will go into the details in our discussion, but the important point is that this is an opportunity to upgrade the European fisc to a more modern setup. It is going to be an incremental process and I do not think there will be a big bang.

However, I think we are well advised to make the best use of that opportunity. In the long run, due to the European public goods challenges mentioned earlier and mainly because of the difficulty to have a stable currency union without a working European fisc, I think we are well advised to do what we can, not only to show the solidarity that is required to individual Member States in the dire situation of the present crisis, but also to use this crisis to develop our institutional architecture further. I believe this process is starting to work. One of the earlier programs that was agreed on before Next Generation EU was the unemployment reinsurance scheme, SURE, which emitted its debt. I believe the emission was ten times oversubscribed. There was a lot of demand for that paper, which I think bodes well into borrowing in the future and I think puts a lot of pressure on us discussing the solid financing of the EU, because of course, if somebody lends you money, they want to understand exactly how they are going to get it back.

That was my introductory statement. Thank you very much.

Hanno Kube

Thank you so much, Jakob, for setting the stage with your very clear and emphatic statement. Marco, can we hear your view on the situation?

2. *Marco Buti*

Thank you very much, Hanno. I am happy to be here – actually, I am not happy to be *here* in Brussels as I am not in a very comfortable situation given the surge of positive cases, but I am virtually with you. I am very glad to speak after Jakob, since we are good friends and have known each other for many years during his several stays in Brussels.

The issue of a brand new tax-based own resource is being discussed since the beginning of this century. The advent of the COVID-19 pandemic and the financial crisis linked to it may have changed some political elements in the game. With the EU's recovery package, and the vital support that it will provide to our citizens, we are breaking entirely new grounds. It means that the old arguments related to own resources or national sovereignty cannot be re-hashed. A lot has been discussed on the legal background for financing the EU. Let me focus on the economic aspects and political dimension of a solid EU budget.

A few years ago, the report of the High Level Group on Own Resources chaired by *Mario Monti* devoted equal time and consideration to the spending and financing sides of the EU budget. The two, indeed, cannot be separated neither in theory nor in practice. From a fiscal federalism perspective, it is generally first decided what policies or priorities to spend on, then at what level and only once those issues are settled, how to finance it. Of course, there are questions we have been asking ourselves for years: Should tasks related to EU public goods and corresponding expenditure by Member States be shifted to the European level in the future? Should current expenditure be more closely aligned to the principle of subsidiarity in return? Now is the time, and your input is certainly very valuable, for substantial advances in answering these questions. As for the Commission, both at political and technical level, we are fully engaged, but nothing is set in stone at this stage. The exact design of the potential new or revised own resources is still to be determined while we are exploring various options.

From a public finance perspective, any new own resource should ideally be stable, non-discriminatory and simple to calculate. It is very difficult to meet all these requirements together. Nonetheless, we have candidates, even good candidates, which can overlook today's unprecedented window of opportunity… and unprecedented needs! Any rise in own resources must aim at improving the capacity of the EU budget to support macroeconomic stabilisation. In particular, it must strengthen the EU's capacity to deal with shocks. The responsiveness of the EU budget to changing economic conditions was very small in the past. With the reforms recently adopted we made a first step so that EU finances could also allow us to respond better to economic shocks in the future, therefore supporting Member States' stabilisation efforts and contributing to the smooth implementation of EU fiscal rules. However, while the Commission will issue common debt to finance the Recovery and Resilience Fund, we are not considering mutualisation of EU countries' legacy debts. This rubicon is not and will not be passed. Our objective is rather to ensure the EU budget is stable and capable of making good on what Member States and citizens have asked of us.

Over time, contributions based on Member States' gross national income (GNI) have become the predominant source of funding for the EU budget, covering about 70 %. While this mechanism may have some advantages, it is not a true own resource and produces certain challenges. Its limitations are particularly evident in crisis situations. In July 2020, our leaders agreed to replace the existing VAT-based own resource with the Commission's simplified and refined alternative method. They have also agreed to introduce a new own resource based on a contribution calculated on the weight of non-recycled plastic packaging waste. These are an excellent outcome. But it is not enough. Europe can only provide the solutions to support Member States' recovery if it is also empowered on the revenue side. This must come from swift, ambitious and effective proposals for new own resources. The level of ambition set by our Heads of State and Government means that we cannot remain bogged down in old issues and arguments. This is a new day and we must address this issue with new fervour.

The most promising candidates are likely to be options that are clearly in line with the EU's overarching policy priorities. This is particularly true for areas where Member States have already expressed their general support. Such examples include environmental and green policies, or the need to address challenges related to the fair taxation of the digitalised economy. The conclusions of the special European Council (17-21 July 2020) have mandated the Commission to put forward in the first semester of 2021 proposals on a 'digital levy' and a Carbon Border Adjustment Mechanism (CBAM), and to progress on the Financial Transaction Tax (FTT) and other forms of contribution from the corporate sector, which all shall or can serve as new own resources. The German presidency has played a key role to reach the political agreement on 10 November 2020 between the European Parliament and the Council, which includes a detailed roadmap towards new own resources to help repay the borrowing, clearly in line with the EU's overarching policy priorities.

The Commission is committed to table a proposal for a Carbon Border Adjustment Mechanism by June 2021, to be presented at the same time as a revised proposal for the Emissions Trading System. The main purpose is to reduce global emissions by pushing third countries to act on climate change objectives. First of all, the introduction of a Carbon Border Adjustment Mechanism must be a way to reduce global greenhouse gas (GHG) emissions in the pursuit of the Paris Agreement objectives. As long as our international partners do not share the same ambition as the EU, there is a risk of carbon leakage – namely a risk that production is transferred from the EU to other countries with lower ambition for emission reduction, or that EU products are replaced by more carbon-intensive imports. By this, the effort of the EU would be offset by third countries resulting in an overall increase of emissions. Indeed, the EU had reduced its domestic GHG emissions by 23.2 % below 1990 levels in 2018, while at the same time its GHG emissions embedded in international trade have been constantly rising, thereby undermining the Union's efforts to reduce its global footprint; the net imports of goods and services in the EU represent more than 20 % of the Union's domestic CO_2 emissions.

Therefore, let us state it unequivocally: The Carbon Border Adjustment Mechanism (CBAM) aims at better incentivising climate action both within the Union and by our trading partners, but it cannot and will not be an instrument for protectionism; it must be in full compliance with the World Trade Organisation, the Paris Agreement and other EU international commitments such as Free Trade Agreements and customs union. Conversely, even if the Carbon Border Adjustment Mechanism is primarily put forward as a climate policy instrument, it might also have revenue raising potential. In addition, the CBAM as an instrument to fight carbon leakage might also reinforce the revenue raising potential also of another own resource put forward by the European Council – the auctioning of EU ETS allowances. Our impact assessment of the CBAM is ongoing. It will cover a wide range of policy options, while focusing on priorities and needs such as avoiding risks of relocation of downstream industries, defining the sectors to be covered by the measure or identifying objective criteria to assess the level of ambition of third countries.

The current international corporate tax framework is lagging behind the realities of the digital economy and is not equipped to ensure the fair taxation of digital giants. This is why the *Von der Leyen*-Commission has emphasized the need to ensure fair taxation of the digital economy and to benefit strongly from the single market (e.g. its consumers, infrastructures). Therefore, the Commission will table a proposal by June 2021, with the aim to make it operational from 2023 onwards and to make good on what Member States and the Parliament have asked of us.

The exact design of this potential new own resource is still to be determined and the Commission services are exploring various options in line with current business models, where enterprises can operate in markets without a significant physical presence there, and with the new realities of value creation, where user data and user contributions play a fundamental role. The Commission will ensure a level playing field and will design the digital levy in such way that it is compatible with the EU key policy objective of the digital transition. The Recovery and Resilience Facility will dedicate 20 % of the funds to measures supporting digital objectives, a digital levy shall not prevent the effectiveness of these investments nor further development of digitalisation in the EU.

It is not an easy task and it has many international implications. Let me reassure you that finding a global solution in the Inclusive Framework remains a key priority for the Commission. This is why the Commission is working to develop a design that does not undermine, and is not intended to impede the OECD process. There are ways to do this so that we still meet the EU's objectives and actively support the OECD. Moreover, we are working hard to ensure that the design of such digital levy is not discriminatory and does not fuel trade tensions in any way. Many different design features have still to be measured against key criteria such as their political impact/viability, revenue generation, WTO compatibility, economic impact etc. For the success of both the CBAM and the digital levy, and also to avoid tensions and any trade disputes and retaliations, it will be essential not to be perceived as discriminatory or in violation of our international commitments with global partners.

On the Financial Transaction Tax (FTT), the Commission will continue to support the Council in its efforts to achieve an agreement under enhanced cooperation. This certainly offers the best chance for compromise. Agreeing on a FTT with ten participating Member States may be a first step towards a fully-fledged FTT. Later on the scope of the tax could be gradually broadened, as well as the number of participant Member States. Nonetheless, from an economic point of view, while if applied at EU27 it could provide significant revenues, if the basis were the current discussions under enhanced cooperation, the parameters currently discussed are not likely to generate much resources. Moreover, it is not sure that an own resource based on only a subset of Member States is legally possible. The roadmap on new own resources agreed by the European Parliament and the Council, also mentions 'a financial contribution linked to the corporate sector or a new common corporate tax base' as a possible way forward for a new own resource to be tabled in 2024 in view of its introduction in 2026.

In conclusion, work is ongoing and nothing is set in stone at this stage. The exact design of these potential new or revised own resources is still to be determined. It is important that we use this opportunity so that the seeds that we plant today for a renewed system of own resources do not happen in a vacuum but represent a step towards a renewed fiscal architecture for the 21st century that takes into account social, environmental and economic concerns of European citizens and caters for the delivery of the European common goods they will demand us to provide. This needs to be done step by step, finding our own way to strike the right balance in a pragmatic and democratically accountable way, but without ignoring the insights that history and reason have to offer us, just as we have learned thehard way that we cannot ignore the insights of epidemiology and biology in the context of a pandemic. Thank you.

Hanno Kube

Thank you very much, Marco, for your introduction on horizontal and vertical coordination, and then in particular on the concrete ideas that are on the table, namely Carbon Border Adjustments, Digital Tax and maybe also a Financial Transaction Tax. I am sure we will come back to those in a minute, in the discussion. But let us hear the other two panelists first.

Now, I wonder whether we can hear *Franziska Brantner* at this time. Let us try to see whether we can connect to her

3. Franziska Brantner

I am very happy to be with you, even in this weird way via phone. I believe that my security standards on my devices are too high. I just wanted to start by going back a bit more and *just look at* where we come from, what the

EU budget is about and how it has been financed and then to look into where we need to go in the future. And when you look at what the EU budget originally funded: it was food security. Today, many are surprised why such a high part of the EU budget is going into agriculture. The objective was to guarantee food supply especially after the Second World War and still is to guarantee our food security as a joint good.

The second part of EU funding is cohesion to help economically weak regions to catch up with the rest of the EU acknowledging that we need transfer funding within the EU to help certain regions to improve economically and socially. Those regions and countries have benefited from the internal market due to transfer funding. Some say we do not want the EU to become a transfer union. In my view, the EU has been a transfer union for many years now. Germany has been benefitting from that transfer union as especially East Germany has received transfer funding in the last 30 years. So, transfer in terms of giving funding from one part of the EU to another one has been present in the EU since its creation. The transfer has been mainly West to East in the past and might be now turning a bit towards the South. However, the transfer has been largely West to East or even South to East in the last thirty years. For instance, Italy has been a main net contributor to the EU budget for the last decade. In my view, it is important to bear in mind that the EU is and always has been a transfer union helping economically less developed regions to catch up.

Lastly, the third category of spending are joint EU projects like Erasmus or the research program Horizon. The peculiarity of these funds is that when introducing each program, one is not able to predict how much each member state will receive from it. When introducing a research program it is not yet sure how much German, French, British or Hungarian universities will receive. Usually, the largest countries receive more funds but it is not defined in the beginning how much return each country will get by contributing to the research program, or to Erasmus, or to a joint space program or to joint research in any other area. I think most of us would agree that this third category of joint investments, joint research, funding of the European energy infrastructure, funding of infrastructure in terms of connectivity, but also trains, high-speed network etc. have a transnational effect and is not supporting only certain regions. So, this is the third category of funding. Now, we must have a look at where the resources of the EU have been coming from for the last decades.

There have been EU own resources since the beginning of the EU stemming from customs duties. Of course, the more we have enlarged our free trade area – for various reasons – the smaller these revenues have become. However, the idea is that we do collect money for funding at our joint border. This funding goes at least for some part into the EU budget. Still, Member States where allowed to keep a certain proportion of these customs duties as a fee for the collection of them. However, the main part went into the EU budget. As we see that logic of saying what we collect due to our joint rules goes into EU budget is not a new idea at all.

Over the last years, we have seen that the proportion of the national contribution to the funding coming directly from Member States has been increasing. As a result, we have seen, even in July, that that part has increased despite the vigorous debate on new own resources. In the last budgetary debate or rather negotiations in July, the 'Frugal Four' managed to increase the proportion that they retain for collecting customs duties. As the Netherlands have an important port where a lot of products enter the EU, the increase in the proportion of what the Netherlands can retain from customs duties has of course lowered contribution of the Netherlands but has at the same time lowered the own resources in the EU budget. So, while everybody has been discussing how to create new own resources in the future, the existing own resources have been decreased. I think this is important to bear in mind when assessing the current situation.

At the same time, we have seen that the debate on who is a net contributor and who is a net beneficiary from the EU budget has been poisoning the debate and has led to drastic cuts in the public goods projects, the third category of funding that I mentioned earlier. For instance, the funding of the EU health program has been cut from 10 billion euros to under 3 billion euros, although everybody would agree that we have to invest more in joint research, research coordination, and cooperation. Also Horizon, the research program, has been cut by 20 % and the funding of Erasmus has been cut. Basically, all the programs by the EU where the return to the national budgets cannot be predicted have been cut drastically.

I think that this shows that the current method is not fit for purpose and for the future as we really need to finance more projects in the third category. Obviously, the dynamics between Member States lead to them being cut since there is no single member state standing up for them. As always, Member States only stand up for what they get back. Germany has been doing that as well. So, we also were able to reduce our net contributions in July. This dynamic we observe is most definitely not a good one. In a Sunday speech, we all no matter what our political tendency is emphasize how important it is to create a European added value, but when European leaders sit down on Monday they cut funding for European added value.

So – how to get out of it? The funding of Next Generation EU has started a debate on how to pay back the debts in other ways then just national contribution. We have heard from my previous speakers of the criteria on how to define categories of new income. First, it is better to collect resources at the European level when the national level cannot collect them any longer or was never able doing so. The second criterion is the positive impact on the market; not to forget of course the climate question and the digital question. For example, the Emission Trading System and the Carbon Border Adjustment Mechanism: the Emission Trading System has a long-term option and a very desirable impact. The other criteria are important as well, for example, when it comes to digital taxation. You can argue that we did not need a good digital tax before Trump, as the companies at least paid taxes in the US, but under the Trump administration, they do not have to pay taxes in the US either. It becomes ever more urgent to find a solution in this area. We have not given up yet, maybe we get there sometime.

And a final word on something which has been really worrying me the last couple of weeks. We are of course depending on the Next Generation EU fund which depends on unanimity in Council. In return, we will not have a strong rule of law conditionality, as *Victor Orban* will block it, as Hungary depends less on it than Italy or Spain or other Member States. *Orban* is sort of blackmailing us. I am wondering – and that is really the question I also wanted to put out for further discussion: Imagine we have another euro crisis and we need to stabilize the Euro and finance it via the EU budget and again we would depend on unanimity in Council, we would again depend on the approval of *Orban*, even though Hungary is not even a member of the eurozone. *Orban* would have no interest at all to help us. I think we really have to go back to the idea for a eurozone budget as we simply cannot put the stability of the euro in the hands of *Orban*. That would mean giving up the stability of the euro at the detriment of the rule of law and I think that is something the European Union cannot afford.

I am looking forward to your questions.

Hanno Kube

Thank you so much *Franziska Brantner*. I hope that you can hear us too and that you can hear that we are very grateful for your words on the funds, on the budget side and on the revenue side. I am sure we will come back to your points in a second. The fourth in this round, *Clemens Fuest*, would you add your introductory statement, please?

4. Clemens Fuest

Yes, thank you for the invitation. It is great to be on this very distinguished panel. Let me offer a few words and maybe a slightly different perspective on what we spend the money on and then on our own resources.

As previous speakers have said, there is a significant potential for EU spending that would benefit all Member States. The European added value that has been mentioned that we all know includes border protection of foreign policy, transport infrastructure networks within Europe, energy policy and climate policy. So there are many policies where we see a lot of potential to work together to have common policies where spending one euro at the European level means we, all of us, gain more than one euro collectively. This is what European added value means. Now, if we compare this to the reality of the European budget, I think the result is sobering. Currently, the European budget is dominated, as has been said, by agricultural spending and regional policies. And these spending categories by many countries are seen as spending of the past, not something that prepares us for the future and not something that generates a lot of added value. Maybe the truth is a bit better than that if you think about regional policies or cohesion spending. There certainly is a common interest in having cohesion in the union, not letting economic differences become too large. But generally there is a disappointment that a bit, but too little has been changed in the spending structure. This is of course, as *Franziska Brantner* just said, because the Member States are more interested in money they can get out of the common pool and are less interested in the provision of public goods which benefits the collective. Now, we are adding the Next Generation EU fund to this where I believe the question of how this money will be spent is open. It is something we can maybe discuss.

My understanding is that it is a mixture of an insurance mechanism and redistribution along the lines we already know. I do not think there will be much that is particularly European in this spending. My understanding is that maybe one third of it is insurance going to the countries most affected while the other two thirds is money going to countries that have had problems before or are poorer. You can call it solidarity in crisis or insurance. I think it is a good political and an important decision for Europe to show solidarity.

This opens up a renewed debate about how we finance all of it, the old budget and the new budget. If we discuss this, I think it is important to remind ourselves of what the EU is and is not. It is not a federation but it may become one in the future and I think at this point we know this is an important discussion. I believe most countries, at least my own country, are not very clear on what they want the EU to become. As Jakob mentioned, we have had this debate about the 'Hamiltonian moment', the idea to transform the EU into some kind of federation in the longer term. It is a possible perspective but you could also say: 'No, let us invent something else.' There is not much clarity in most countries about where they really want to go.

We currently have a system in which there is no centralized power to tax. Instead, we have some EU own resources like tariffs that are collected based on European policies since it does not make sense to have them as national taxes because they are collected at the external border. However, we mostly have GNI-based contributions and the question is, if we think about the financing of the future, why should we move away from those GNI-based contributions? They come along with many advantages – they are simple, they are fair, their distribution is fair and so on.

However, there are two political arguments why we maybe want to move away from them. One is that people say it emphasizes national contributions and thinking in terms of net balances. This is debatable to some extent but it certainly does emphasize the role of each member state in the financing of the EU, which is acceptable insofar as that the European budget is purely redistributive, a zero sum game. If you consider regional policies, at least in richer countries, you could say it is indeed purely redistributive. To this extent, net balance thinking is appropriate. But as soon as we think about European public goods or the common interest in cohesion, it does not make sense to take this net balance perspective – it is thus maybe good to get away from it. The second issue is that by focusing on GNI contributions, we forget that there are genuinely European resources like for example the tariffs.

This takes me to our proposal. As it was mentioned earlier, jointly with *Jean Pisani-Ferry*, I took up the proposal – in fact made by the Member States themselves – to use the ETS revenues as an own resource. And why do we think that this is appropriate? I personally do not think GNI-based resources are so bad, but ETS is related and in the future should be even more related to genuinely European policies. If we think about the future of climate policies, what we would like to see as economists is an extension, a development of the European Emission Trading System into a system that includes all sectors and all countries.

This would allow us to achieve our climate objectives, our CO_2 reduction objectives, efficiently. If we achieve that, it will technically be a major success. However, it does not make sense to then allocate the revenues nationally. We do this currently on the basis of past emissions. But if there really is a European system, ETS revenues will be allocated to where we have CO_2 emissions. Leaving this money in the Member States will only create incentives for the Member States to host CO_2 emissions and this is inefficient. Climate policy should be a European policy.

In my view, the main argument for making ETS more European is really that this would be linked to a very good, joint climate policy. It would really be an opportunity that not just raises a lot of money, but it also brings along and favors European added value in achieving climate objectives. This is so important, it really is at the heart of the Green New Deal, that I think it would help us all.

As Marco mentioned, it can be tricky to have resources that disappear. If we are climate neutral in 2050, this resource will disappear. However, what we show in our study is that there is a lot of time between now and 2050 in which we will collect a lot of revenue from ETS. It will be enough to pay back the Next Generation EU debts and between now and 2050, it is the next generation that can think about new own resources after 2050. I believe that using the ETS for the remaining years would be a very, very good idea. Thank you very much.

Hanno Kube

Thank you so much for your statement, and again, for all your statements. What I found very striking compared to the discussion we had this morning is that in the morning we very much concentrated on the revenue side and on the legal basis regarding the revenue side. What we have seen nowis that we widened the horizon with these four input statements in so far as we really saw, or we are seeing, the connection between the revenue side and the spending side with regard to the acceptance of policies and with regard to the acceptance of revenue generated. I think that is an important point.

The second issue that I found very interesting and remarkable in all statements is the question of whether and to what extent the Own Resources Decision should be linked to EU policy decisions or whether own resources should be seen only with the aim of financing the Union and then judge the policy decisions by themselves. Or to put it differently: Is it right to rely on the legal bases that are already in the Treaties in order to use them for generating revenue, like Art. 192 TFEU and others? Or should we think about new legal bases for generating revenue? As a tax lawyer, I would think of income tax, of VAT etc. But we now very much talked about ETS, we talked about carbon tax and so on.

So there are certainly points to discuss: The relation between revenue and spending and the question to what extent resources decisions should be linked to EU policy decisions. Thank you very much for your very interesting input statements.

Now, let us take a very short break and then have a second round on the panel and go into the discussion with the audience. I would suggest that we actually keep it the way we had originally planned and come back together here at quarter past five in just around ten minutes. Just leave your cameras on so that we can be virtually together and continue in ten minutes time. Thank you.

III. Follow-up Statements

Hanno Kube

Let us get together again and continue with a short second round on the panel if the panelists want to react to the other introductory statements. Jakob, do you see something you would like to react to, with regard to the other statements?

1. Jakob von Weizsäcker

I think I want to briefly say something about one of the last points that Clemens made and I think it popped up before. To some extent, it is not so important that there is a functional connection between the funding and the expenditures. That is in a way a characteristic of the modern states, that one can fund things, for example expenditures for the environment, with all kinds of taxes that have nothing to do with the environment. That is a principle and it is a very good thing. So I would caution a little bit against the logic that says we need to have a European tax in one area just because it is an area where we want to spend money.

But I think one of the advantages of the proposal by *Clemens Fuest* and *Jean Pisani-Ferry* is that with CO_2, it is a little bit similar to a tariff. Say, if a lot of tariff revenue is collected in Rotterdam – which is the case – we do not know where the goods will finally be consumed. The single market is, of course, the reason why we have the tariffs as a European revenue and it is a good thing. This is similar to the situation where you have a large power plant in one part of Europe and the power is being used somewhere else to manufacture goods and, following that, the manufactured goods are then consumed in another country. There is an analogy as well, as in it is not so clear why the revenues should accrue to the place where the power plant sits. So I think that is an important argument.

Secondly, it is a question of the incentives, also for Member States. If in fact the revenues accrue to a particular fisc in one country, it has different incentives effects compared to the revenues of CO_2 levies or ETS revenues accruing at the European level. The consequence is not that your national fisc receives less money but that somebody else in Europe needs to fund the European fisc. Overall, I think it is important to not think so much about what we do want to fund in order to find the right sort of revenues. GNI is a perfectly legitimate way of doing it, but we should rather think if there are good reasons for why the revenues should accrue at the European level.

There is an interesting story and Clemens can tell it in much more detail than I can, on corporate taxation. In the US, they have a good model to collect these taxes but then there is the big puzzle regarding which area you give it back to. They have something called formula apportionment in order to decide how to allocate the revenues. But this is not an exact science – in fact, it is very difficult to know which may be surprising to some of the lawyers present. I think most economists will be aware of the problem that it is not so clear where the revenue should exactly end up. The US have this pragmatic formula, but there may also be certain corporate related taxes where it would probably be quite natural, provided that the funds are needed at the European level, to simply keep them if it is too difficult to decide where the money should go, geographically speaking. I think if we talk about own resources in the proper sense, it is useful to think about the European merit of collecting that particular resource and not another one. And that is, of course, what people are doing who are reflecting on own resources. That is a remark that I wanted to make.

Hanno Kube

Thank you. Marco, please.

2. Marco Buti

Thank you very much. First of all, I find the initial presentations were pretty much aligned, although I do not know if this is due to a sampling bias. We were still taking certain different perspectives, but I think we were broadly on the same page highlighting similar strategies. I think this is pretty comforting overall.

Secondly, what has been indicated as one of the main points is the fact that we tended to look both at the revenue and the expenditure side. I think this is an important element with the qualification that Jakob made. The issue of own resources is not a purely technical one. We have plenty of very clever technical solutions but there is also an issue of political legitimacy which is very important. Looking at the expenditure side of the budget is vital in constructing this coherent system that I have emphasized before.

The issue that Clemens referred to concerning the GNI contribution is very efficient and very simple. It however has this element of net balances which is elemental. One could see this effect at work when it came to the final night of negotiations at the European Council. Member States narrowly took this type of approach and what was sacrificed in the final negotiations were some of the proposals on non-allocated resources as it has been mentioned by Clemens. These proposals concerned more genuine European public goods compared to the transfer of Member States' contributions. The Commission has subsequently been giving guidance to the Member States in the preparation of the national reform, recovery and resilience programs with the object to bottom-up and to recreate these European public goods by virtue of the seven so-called flagships. These are three on the environmental side, three on the digital side and one on the social side.

The Commission has in a sense by way of aggregation been trying to come to similar objectives whilst accepting the political reality, curtailing some of the resources directly allocated to that.

My final point is the question of whether one should go for *one* new or old resource or whether we want to have a multiplicity of resources and of policies. In particular, Clemens and I had some exchanges with *Jean Pisani-Ferry* when we were preparing the paper for the informal ECOFIN. In that paper, we basically agreed upon the ETS, so essentially on only one resource. I think it is a legitimate question whether we should have a plurality of resources. That increases the complexity, obviously. At the same time, we know that there are trade-offs and the issue of equal treatment and non-discrimination may be alleviated by having more than one resource. We have not made up our mind yet. We are going to go forward based on the mandate of the European Council to look at the three sources, being the ETS, Carbon Border Adjustments and a digital levy. Provided it can be rescued, there is a bit of a question mark here, the Financial Transaction Tax is also a possibility.

Hanno Kube

Thank you, Marco. I hope *Franziska Brantner* can hear us well. Let us see whether we can have a second statement from her. Can you hear us?

3. Franziska Brantner

Thank you so much. I would like to comment on a few points, also on a few points of the moderator, regarding what we discussed this morning and what we are discussing now.

I think for us it is a nice saying in German '*Steuern sind da zum Steuern.*' which means that you have taxes to also direct financial flows in your society. One important aspect of that is whether taxes do allow to finance public goods and I think European public goods hold the key to the future. We know that we need to invest in our joint digital infrastructure, that we need to build a joint energy infrastructure with green hydrogen. It is too big for one nation and we will not be able to achieve it alone and then we will not be able to reach our climate targets. We really need to invest jointly in the energy area, we need to invest jointly in batteries and we are partially starting to do it but not yet at the level that we would need. We need it for an alternative infrastructure for trains, you can name more public goods projects. The public goods we need to upgrade are big, they are important and we need them fast.

Obviously, we do not get there by GNI, by national contributions, because every time, and Marco just said it again, when Member States are together, what they cut are exactly these European public goods. When it comes to what we need to achieve at the European level and we acknowledge that with the current financing methods we do not get there, it is important to think about a new one that will primarily allow to finance it and maybe even have an effect that goes into the same direction. That is what we like about the Emission Trading System, because it also allows you to make a higher price on CO_2 emissions and thereby protect the climate. It is positive if the revenue side has the same political objective as the expenditure side. But of course, it does not have to be linked necessarily.

The second point is that some panelists spoke about VAT and there have been VAT reform proposals from the Commission for how many years now? Three, four years? The Member States are losing billions every year by not reforming our joint approach to VAT and I think that is something which is often not discussed publicly. Maybe it is not as sexy – I do not know – but I think it is quite incredible that we have not yet achieved that and our German government is blocking it too since it is skeptical about Cyprus. I believe that as public authorities we overall lose a lot of funds because we are not reforming the VAT system. Maybe Jakob or Marco can say something about it but I think it is quite a shame that we are not getting there.

The last point that we observe with worry is that the competition we have seen over the last decades on corporate taxes is moving into the income tax area. This is a quite worrying trend since we are still trying to fight against competition on the corporate tax level and we would probably have to do more now to stop the competition when it comes to income taxes. We see this process starting all across Europe and we get the impression that it will not be bearable for our tax collection systems in the future. So we have to start worrying not just about corporate taxes but also about income taxes.

Hanno Kube

Thank you very much. Everybody could hear you very well, thank you very much for your statement. *Clemens Fuest*, I think you wanted to say something as well.

4. *Clemens Fuest*

Yes, thank you. On the link between taxes and spending, I completely agree that in most cases it is not very smart to draw this link. Politicians sometimes love to draw this link to justify taxes but it is misleading the public. If we think for instance about the solidarity surcharge in Germany, this is money just going into the general budget as we all know and it was justified 30 years ago with the financing of the German reunification. Today, it is justified with the tax system otherwise being unjust and so forth and so on. It is completely arbitrary and governments invent nice names, like companies for their products, to justify taxes and this is misleading.

Why do I say that I think ETS is a good source of financing for the EU? This is because it is linked to an EU policy and not because I think it will lead to the effect that the money will be spent wisely. How the money is spent is an open question, money is fungible. But I am really interested in the environmental policy side to this. *Franziska Brantner* mentioned this idea that we should steer with taxes. In fact we as economists think that this is the exception for taxes rather than the rule, but in this case we want to steer. I personally think that it is a unique opportunity to get to a good climate policy in Europe. This is not trivial. We have many other policy fields where we are moving towards very bad climate policies. Steering capital flows via sustainable finance in our example – I think the Taxonomy is a bad idea, it is central planning style. Using the CO_2 prices is a very good idea, which is why I am interested in it. We should remember that this is not about financing additional spending. The money is already spent, it is the Next Generation EU. The question is, now that the money is spent, how do we finance it? We could finance it by cutting other spending in the EU budget.

If I understand it correctly, this is maybe an interesting question also to you, Marco: What would happen if no new resources were introduced? One scenario would be that it is going to be GNI contributions in that case. The other scenario would be to say that we have the decision on own resources and we would have to cut other spending in the EU budget. Maybe it is an academic question but I think it is quite interesting politically. What do we lose if we do not introduce additional new taxes? It is not like we are doubling spending in the current EU budget. If that was the problem, I would be against introducing new resources because I do not think the spending is so attractive that we would want to repeat it. But we have already spent the money and using the ETS now is giving us an opportunity to do something in the area of climate policy. Otherwise I would be against making this link between spending and the taxing side. Thank you.

IV. Discussion with the audience

Hanno Kube

Thank you. I think it was a good idea to have the second round on the panel. Let us now open the discussion to our audience.

Just one remark: If you have questions for *Franziska Brantner*, we will collect those questions so she can dial in one more time and then answer to all the questions posed to her. I have the first question from our speaker in the morning, *Edoardo Traversa*. I am sure that he will ask an interesting question to the panel. Edoardo, are you there?

Edoardo Traversa

Yes, I am here, I hope you can see me. Thank you very much for the various input statements. I must say that even if I am not an economist, I agree with almost all what you said. It is a fact that there is a need to expand the EU budget, that we should focus more on creating a new architecture to making this new borrowing capacity of the European Union possible and it is not about making revolutions on the revenue side. By the way, between the 'Hamiltonian moment' and the introduction of a genuine income tax on the federal level in the US, it took more than 120 years.

I carefully analysed the various proposals that are on the table and are mentioned in the various reports. I must admit that I can see there is one big absence, and I am very happy that *Franziska Brantner* mentioned it, which is actually VAT. Because from a purely economic perspective and also from a legal perspective, it is a stable and robust source of income. There is a high degree of harmonization, it does not carry the uncertainties and the risks linked to new taxes, like the Digital Tax or the Financial Transaction Tax, it is non-discriminatory, it is not as regressive as it is often presented, there is a clear link with EU policy and the internal market and there is a large base as it is paid by all EU citizens and companies and not just by polluters and multinationals. It is not a sanction, it is a true tax which is good for the democratic aspect of it and the legitimacy argument. Moreover as you know, it is already, although imperfect, an own resource. It was in 2011, almost ten years ago, that the Commission proposed that a share of the VAT collected on each taxable transaction in the Member States, with a ceiling of 2 %, would directly accrue to the EU budget.

It seems to me that this is still a sensible, simple and coherent idea which could be perfected, for example by including special VAT regimes for financial transactions or digital services or by improving collection at the EU level. There are certain changes that could be made to the VAT Directive to make it a much more robust own resource. All those elements seem to indicate, at least to me personally, that there is room for some discussion as regards the place of VAT as a reinvented own resource. This does not exclude the fact that for example ETS, or special contributions from certain sectors for certain objectives, could also be on the table. It is not the only solution but I am really wondering: If we want to show that there is some European added value why should we not start with the European Value Added Tax?

Hanno Kube

Thank you, Edoardo. Does anyone from the panel want to react to this intervention? Clemens, please.

Clemens Fuest

Yes, thank you. I certainly think the VAT is a candidate worth discussing. There are a couple of issues. First of all, I think the VAT is considered as regressive. It is probably not really as regressive as most people think or maybe other taxes like corporate income taxes and other income taxes are not as a progressive as people think because the burden is passed on etc. But still, I think there is a concern that this is a regressive tax. Of course, it could be used less at the national level and I believe that maybe then it has less of this property we discussed earlier that it is a tax which is hard to allocate to individual countries. It is not ideal but you do target national consumption through the Value Added Tax as it works today, so maybe it does make a little more sense to leave this tax at the national level.

I have a little anecdote to conclude. Some time ago, I was at a discussion in Brussels and I made a suggestion a similar to yours. This was also a discussion about own resources during which I proposed, let's say 2 %, go to the EU and we put it on every receipt: '2 % are going to the EU'. I said: 'It is very democratic, it is transparent, people see they are funding the EU'. And I was surrounded by people from European institutions, they were unanimously, really brutally and completely against it, because they were worried about the idea that people see that they fund the EU. So one of them said: 'Look, those who do not like EU spending' – I think she said *Marine Le Pen* – 'will hold up this receipt and say: 'Let's get rid of this tax.' I replied:

'Well, that is what democracy is. If people do not want the spending, it is fine, we get rid of it.'

I think we should not forget that we are also looking at a game of power. The European institutions want more power, national governments do not want to give them power and that is why institutions, national as well as European, love taxes that citizens do not see and do not feel. They do not like taxes that are very transparent and are felt strongly. I think that is a challenge for this VAT idea. I think it would be great if we had the European stars and '2 % to the EU' on every receipt. That does include being critical, we need critique of European spending as we need critique of national spending. Currently, we have a mentality in many countries that more public spending is always better, but it is not. But that does not apply just to European spending, it also applies to national spending. Thank you.

Hanno Kube

Marco, please.

Marco Buti

Thanks, Hanno. The convergent positions of the first round are starting to crumble, especially after the intervention by Clemens. First of all, I think, having new own resources to finance the EU budget needs to be integrated in the balanced approach we discussed before. It is obvious that for example in those types of surveys where you ask whether one wants to pay less taxes, everybody would in a very populist way react with: 'Yes, I want to pay less taxes.' You then have to spell out what this implies in terms of spending. I think in going back to what we indicated before, namely the need to provide for EU public goods, the effects of spillovers and the arguments of a minimum critical mass motivate the action at the EU level. Based on that, we can discuss where the resources are coming from. Simply putting the taxes on the bill with the EU flag is clearly not going to help. So this was a bit of a side argument.

Instead, I tend to agree on the first part of your response to Edoardo. I think the element of regressivity is a concern. Secondly, the considerations about the net balances also come into play. To be clear, we are not standing still on the VAT. The Commission has made proposals in July, the leaders agreed to replace existing VAT-based own resources with the Commission having simplified and refined alternative methods. There is some progress on that. The feeling is that it is very difficult to simply take decisions which would move a chunk of revenue accruing at the national level and put it on the European level and thereby in a sense creating a hole in the national budget. I think all this militates towards considering VAT as part of a global package where you have an ancient resource like the VAT together with other resources which have this element of connection with new EU priorities.

Hanno Kube

Thank you. I have one more statement by Jakob. At the same time, I would like to invite the audience to ask questions if you want to by sending a message, an exclamation mark for example, to the open chat, so we can see you. Jakob, please.

Jakob von Weizsäcker

Yes, thank you Hanno. I want to add another dimension to the discussion, using VAT as an example. If we talk about a genuine own resource, we would be talking about something where the tax rate could then be decided by qualified majority in one way or another. That is true for tariffs. I would feel reasonably comfortable at this stage, and we are doing it, to decide on the ETS. We have the legal basis to do it and we decided that with qualified majority we can increase the prize, we can reduce the quantity and that is something where I think we feel comfortable. Regarding the VAT, giving the European level unlimited access to the tax base of VAT would be quite another step and I am not certain whether at this stage of the evolution of the European Union there would be a consensus possible about something like that. I rather doubt it. It is of course possible that with unanimity one decides to let us use one or two percentage points. But I think for this kind of genuine own resource, where the tax base is in fact subject to genuine European decision making, I really doubt that VAT would be the right way to go, certainly at this stage and for some time to come. I believe that is another important aspect to bear in mind.

And just as an anecdote, and Clemens of course knows this, the people who generally are against taxes in the US – if you are in the US, there are sales taxes, there are state taxes or local taxes – they were very keen to make sure that on every receipt it shows up, in order to increase what they call the 'tax resistance'. Unfortunately, this has led to a not very efficient tax system when it comes to sales or VAT taxation in the US which is a bit of a problem. I think in Japan they are also not very developed on the VAT front.

I believe that VAT in principle is a pretty good tax from an economic perspective, so we should think about it very carefully if we want to go down the US route on this.

Hanno Kube

Now, I see a question by Professor *Matthias Valta* from Düsseldorf. Matthias, please.

Matthias Valta

Thank you very much. My remarks go into the same direction. I am very intrigued by the concept of European public goods. The problem with European public goods is that, if I understand the concept correctly, that they are first in line to be subject to cuts and budget negotiations. I understand that it is important to have a source of revenue that is not seen as a membership fee to avoid a thinking like Margaret Thatcher's 'I want my money back'. There should be other sources which are easier to distribute without an immediate reference to the national benefit.

But I wonder, is not the underlying problem that the real European added value and the real European public common goods are not visible enough, especially on the national political level? The problem we have seen with the Brexit debate is that the people do not know what the European Union does for them in the broad range. And as it has been pointed out, it might be problematic if the people get to know, learn to know the European public goods, the European common policies and the European value added only by tax receipt. Perhaps, tax resistance increases interest but maybe there should be a two-tier approach, not only increasing taxation for European public goods but also making them visible. Thank you.

Hanno Kube

I will collect some questions and add *Irene Burgers*' question and then maybe even one more, so we are more efficient, even though I have seen your hand, Jakob. *Irene Burgers*, University of Groningen. Irene, can you hear us?

Irene Burgers

My question goes to Clemens. The Emission Trading System has been a subject of survey in our department for over 20 years now, I guess. Some of my colleagues are pro, others are contra emission trading and would argue that you rather could have a carbon tax. Personally, I have seen movements from many colleagues being very much in favor of this emission trading system too. But we really need carbon taxes because the Emission Trading System is not as effective as we thought it would be, it does not really reduce pollution. Did you, in your survey or investigations for your article, also say something about this instrumental function or did you solely focus on the question whether it could be a good own resource?

Hanno Kube

Considering that this question is one for *Clemens Fuest* and that, if I understand it correctly, he will have to leave us at four o´clock, I would like to ask him to answer to this question first. Then we have Jakob and also *Franziska Brantner*, provided that she wanted to say something. *Clemens Fuest*, please.

Clemens Fuest

Yes, thank you. I am sorry, I have to go to another meeting soon. This is a very important question. In this paper, we did not go very deeply into this instrument discussion. But I think there is at least some agreement that the current ETS system does have things that need to be changed. One issue is price fluctuations in booms and busts. I think most concepts foresee that you have some smoothing mechanism which, in fact, transforms this ETS system into a mixture of a pure ETS system and a tax. There are different ways of doing this, it is very technical. I think what we have suggested could also be achieved by a carbon tax. The difficulty with a carbon tax is that you cannot make sure you reach the climate objective because the quantity is not fixed. Somehow, you need to fix the quantity and that is the advantage of the Emissions Trading System. But I agree, there are many technical problems with extending this everywhere, there are measurement issues.

My reading, and I am not an expert in this area, is that in the end you probably need a mixture of taxes or tax-like instruments but I would still think that the backbone in the end is the quantity of CO_2 you would like to restrict and how do you achieve that with a tax only? I think that is difficult. But I see that our argument could also be made for CO_2 taxes. Thank you.

Hanno Kube

Great, thank you very much, *Clemens Fuest*. And if I am correct, this is the right time now to thank you for your participation in this conference. It is an ongoing discussion and we are very grateful that you shared your insights with us. We are looking forward to any kind of future communication and exchange on these issues with you. Thank you, Clemens.

We will nevertheless continue with the rest of the panel. Thank you. So, *Franziska Brantner* indicated that she wanted to say something too and she also has time constraints. Jakob, if you allow, I would like to take her first. *Franziska Brantner*, we cannot see you, but you are extremely present here on the panel, so, if you can hear us, the floor is yours for the answer to the question posed by *Matthias Valta*.

Franziska Brantner

Thank you for the question. Just briefly on the last question by Irene. There are many ways to combine ETS and some sort of a CO_2 price. We argue that in the ETS you would need a minimum price. So, in a way, you can combine it. It is not either or, there are many ways you could do that, so it is a technical question but it would be feasible and we consider that a mixture of both would be possible and probably the most efficient way to achieve the climate target.

To the question of European public goods and that they are not as visible. Yes, unfortunately not. But I was really surprised that in the middle of a health crisis, the Corona crisis, where you have so many surveys in all Member States and one that was just done by the European Council of Foreign Relations showing that up to a two-third majority of European citizens were calling for cooperation on the vaccination issue, cooperation on strategies, cooperation on buying medicine, not being as dependent on China and India – all of them saying we need to become more resilient as Europeans, we should do it together. In every single survey you get a solid majority in every single member state. And at the same time, at the end of July, Member States cutting the EU budget for health from 10 billion to under 3 billion euros. I do not necessarily think it is a question of public perception, seriously, on that you have solid evidence of the need for it. It has been made clear for everybody that you cannot count on the US, on Trump, anymore to provide a public good, which is health, to the EU and that it is difficult to do that as a nation state alone. There was so much evidence but Member States still cut the budget. I wish it would be different.

But I agree with you in general. We have to argue more for climate being a European public good, that investments in technology, infrastructure are worth it. If we invest together, we get more out of it than if we would do it alone. Often, we would not even be able to achieve the target alone.

Thank you so much for having me.

Hanno Kube

Thank you very much, *Franziska Brantner*. We could perfectly understand you. If I am correct you have to leave in a second as well, so thank you for being with us. If you can still stay, please do, and signal to us, if there is another intervention from your side. Whatever is feasible for you. Thank you very much. Now, Jakob.

Jakob von Weizsäcker

Yes, thank you very much. I wanted to make an economic observation on public goods. The definition of public goods is that it is non-rival in its use and that it is non-excludable. For example public broadcasting in the days before we could somehow by electronic means make it difficult for people to receive a broadcast message was pretty much a pure public good. If you think about it, it is really hard to know how much people wanted it, because, of course, they had no incentive at all to tell you the truth. They may say: 'No, no, no, never ever am I listening to public radio or am I watching public television.' because they know that if they say that their price would be zero, they could afterwards still listen to it, they could still watch it. So that is very much the characteristic of a public good. It is impossible to price and therefore it is impossible to really measure very well how much people want it and that is a disadvantage. Because, of course, the things you can measure come often first in politics and the things you cannot measure so well come second. You are right that in political processes, and that has been described by pretty much all the panelists, it is a huge problem.

On the other hand, this characteristic is a big advantage. If, for example, we have European investments in climate, in security, or in research, nobody can really measure very accurately afterwards who was a net beneficiary and who was a net payor. Because, by definition, it is almost impossible for public goods to know. Regarding this whole talk about a transfer union with public goods – if they are really good public goods and the spending goes well, one has hardly any argument on who is the net beneficiary and who is the net contributor, which is a good thing. In other words, once we manage to fund these public good, chances are it will not be very controversial because people will say: 'It seems to be working, it seems to be a good thing, let´s keep it.'

Getting there is hard, because we cannot measure it, but keeping it once we have it is relatively easy because one will not have discussions about winners and losers, since probably everybody wins in the end. Thank you.

Hanno Kube

Great, thank you very much. *Marco Buti* also wanted to say something.

Marco Buti

Thank you very much. I find this latest round enlightening. First of all, I will continue a bit on the approach put forward by Jakob. In the economics arena there is a lot of talk about the optimal currency area, whether Europe is an optimal currency area or not and whether there is endogeneity or exogeneity, etc. A few years ago, the late *Alberto Alesina* together with *Guido Tabellini* and others asked whether Europe was the optimal political area. They did so by looking at the preferences of citizens and found there was more variability within countries than between countries on preferences for what has been called in the panel 'European public goods'. In the non-economic area you have defense and security policies and policies for immigration. In the economic area there is transnational investment and other types of internal investments and goods where you have a critical mass and large spillovers.

In the European barometer that we run every month on the question of preferences, we find there is a lot of convergence on what European citizens really want. Therefore, it is not a question of disagreement between countries and between what we should do on the European level and what citizens require. The dynamic, unfortunately, when it comes to European negotiations is a question of what one may call the 'discount rate' of politicians. They often want to go back to Rome, Berlin or The Hague and say 'I gained so much of 750 billion euros of Next Generation EU in the European Council negotiations' or: 'We have saved so much compared to the proposal of the Commission'. This very short-term–horizon prevails in the negotiations rather than national governments reflecting the preferences of the citizens. I think if you lengthen somehow the time horizon, lower your discount rate, you will find better coherence between governmental preferences and preferences of citizens. The outcome of what I think was nonetheless a very courageous and important decision back in July at the

European Council concerning the 750 billion euros for Next Generation EU was that 90 % fell under the Recovery and Resilience Facility. This took precedence over components which were more directly related to EU public goods. What was cut was the Solvency Support Instrument, i.e. the help for recapitalization of enterprises, which is a clear priority arising from the current crisis. What was curtailed was the private investment support by InvestEU. But also, as it has been mentioned before, the EU Health Program was slashed. These were programs whose resources were not directly allocated to countries. This is why, when we stress the issue of the net balances, the natural reflex of politicians is to cut programs with an EU added value instead of transfers to Member States. This dynamic was at work also at the July European Council, even within a historically strategic decision which led to the creation of Next Generation EU. I repeat, the natural political reflex is to look at how much they (the national governments) get directly rather than the focus on common goods. In economic terms, one could say that policy makers in EU negotiations, instead of optimizing overall EU welfare, optimize the sum of national welfare functions.

Hanno Kube

Thank you, Marco. Are there any more questions from the audience to our panelists? Anything else we might discuss in this context? If this is not the case, then we should slowly finish this round.

Again, as I already said in the beginning of our discussion, what I found very interesting to see in the afternoon session compared to what we discussed in the morning is that we really widened the horizon and opened up. We saw how much the funding side has to be seen in conjunction with the expenditure side with regard to legitimacy, with regard to the acceptance of the decisions taken. What I also found striking is to what extent this thinking in net contributions and net benefits has to be taken into account and has to be overcome sooner or later but still seems to be very dominant.

Just one last observation from my side: I still wonder whether in the long run it is right to think about new own resources only in terms of EU policies. Of course, it is good to have this connection to some extent and we do have the legal bases for these EU policies. But as a constitutional and tax lawyer, I would say, as *Clemens Fuest* has said, that taxes are not only there for steering. Steering taxes are an exception from a tax lawyer's point of view. Taxes should have the primary aim of financing. So the question is: Should we not rather think about solid bases for taxes aimed at financing the Union instead of thinking of taxes and levies as a sort of side effect in the context of EU policies? If we want to finance the Union properly in the long run, we need solid taxes that are real taxes and as a tax lawyer I think that the ETS system, plastic and carbon taxes are not traditional solid taxes. But I am not a panelist, I am only moderating here and this is all I should say at this stage.

I would very much like to express my thanks in the name of the whole Institute for the contributions of our panelists. I think it was an excellent, high-ranking panel and we have seen that throughout. Thank you so much, *Franziska Brantner*, if you can still hear us. Thank you, *Jakob von Weizsäcker*. Thank you, *Marco Buti*. Thank you, *Clemens Fuest*. Thank you so much for being with us.

If you have time, please do stay for a final statement, for a conclusion by my co-director *Ekkehart Reimer*. Thank you, and I hope to see you all soon. The discussion is, as I said, an ongoing discussion. Thank you.