

Some German-Italian Ministry of Finance proposals for financing EU-public goods in the future EU budget

The forthcoming negotiations will be conditioned by the impact of Brexit and the compelling need to adequately align scarce financial resources to the objectives of the European Union in an economic and geopolitical context which requires ambition and capacity to adequately address the priority concerns and the expectations of the EU citizens. Brexit should be seen as a chance to redesign the EU budget in order to turn it into an EU instrument to address today's challenges.

1. Six areas where the EU budget can do more and better: European public goods

There are important policies which Member States cannot fully provide on their own and which need to be addressed at the EU level. The EU-budget must therefore be re-oriented in such a manner as to be able to finance such *European public goods*, and ensure an efficient use of the taxes paid by our citizens and companies. A policy action at EU level, also in terms of co-management and/or co-financing, will be particularly necessary in the following areas which identify truly European public goods:

1. **Management of EU borders:** Increasing migration flows and policy crisis call for an enhanced European response. Further common actions will be critical to manage migration more effectively at common borders;
2. **Defence:** Strengthened European cooperation in the defence sector supported by a European Defence Fund (EDF) can create considerable synergies and enhance the efficient use of currently available resources. Within existing legal limits, the EU budget needs to reflect this policy priority and play its role in financing defence;
3. **Security:** a common policy action is required in order to provide an effective development of internal and external security capabilities, including cyber-security, and the fight against terrorism;
4. **Common investment initiatives,** including EFSI and CEF, with a focus on cross border initiatives, which can spur growth potential and contribute to the completion of the single market in terms of Innovation Union, the Digital Union and the Energy Union;
5. **Strengthening European citizenship:** EU programs investing into young and future generations are key to reinforce integration across Member States. Resources should be mobilized to promote European mobility, notably through the Erasmus programs, and to launch new transnational cultural initiatives, contributing to the development of a true sense of European citizenship and identity.
6. **Climate protection:** a sustainable climate and environmental protection is a key issue for the European Union and requires a coordinated approach on the European level.

2. Reforming Cohesion Policy

Cohesion Policy is key for reducing socio-economic disparities and stimulating economic convergence as well as the smooth functioning of the EU's internal market. In order to improve its contribution to these objectives, reforms are needed along the following lines:

- a) Administrative procedures should be simplified;
- b) The budget should be developed from a system which favours a pure spending approach to one which is outcome oriented;
- c) European taxpayer's money should be used to support the development of investment projects to support growth and employment in member states. The latter could take advantage of the Commission's structural reform support service (SRSS) and the EIB technical assistance in designing the projects in an efficient way, while fully respecting national ownership. At the national level, structural funds could also be used to finance projects to address the relevant country specific recommendations within the European Semester consistently with the time needed for the reforms to be implemented. Financing national and regional projects which allow for an increase of competitiveness and growth potential should become the main objective for the structural funds. By better using existing funds, the EU budget can foster economic convergence and contribute to a strong Economic and Monetary Union
- d) Eligibility criteria should consider not only GDP per capita but also social indicators and those reflecting solidarity.

In the face of these challenges, when discussing the total amount of financial resources, Italy and Germany would be open to consider an increase by a limited amount provided that:

- the EU budget should be reoriented to finance European public goods (see above). This should allow for the overall tax burden on citizens not to increase, and actually to be slightly reduced;
- the expenditure side of the budget still provides for a strong financing of cohesion, but the effectiveness of the cohesion policy has to be improved. Concentrating on the financing of investment and reform projects which increase growth, competitiveness and productivity in weaker regions will be key.