Politics and Governance (ISSN: 2183–2463)
2023, Volume 11, Issue 4, Pages 28–39
https://doi.org/10.17645/pag.v11i4.7252

Article

Revisiting Early Fiscal Centralisation in the European Coal and Steel Community in Light of the EU's Transfer Budget

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Submitted: 30 May 2023 | Accepted: 14 August 2023 | Published: 27 October 2023

Abstract

The last few years have resulted in substantial changes for the EU's fiscal powers, primarily through the introduction of the Next Generation EU funds. This article argues that the assessment of these developments as federalisation processes is based upon a central misunderstanding of the EU budget as a public goods budget in a federal state. The EU is a compound polity comprising of mature states, and its budget may be termed a "transfer budget," which allows member states to predict budgetary costs and benefits. To understand the transfer-oriented nature of the budget, this article adopts a historical institutionalist lens. Revisiting the fiscal centralisation in the European Coal and Steel Community allows us to understand how the six delegations agreed to combine economic and social aims in this budget, which was intended to serve the European Coal and Steel Community with similar elements to a public goods budget. Revenue consisted of debts and a levy on coal and steel produce, whereas expenditure ranged from investments to payments to individual workers. The Treaty of Rome, with its anti-supranational basis, triggered a critical juncture in Europe's budgetary history: Since 1957, a transfer budget evolved. Revisiting the European Coal and Steel Community budget system allows us to understand the fiscal federal appearance of the Next Generation EU funds: While the EU makes new attempts to use its budget for the provision of common goods, its functions are limited by the institutional structure of the transfer budget.

Keywords

budgetary history; EU budget; European Coal and Steel Community; fiscal integration; Next Generation EU

Issue

This article is part of the issue "Comparative Fiscal Federalism and the Post-Covid EU: Between Debt Rules and Borrowing Power" edited by Sergio Fabbrini (LUISS University), Tiziano Zgaga (University of Konstanz), and Tomasz P. Woźniakowski (University of Wrocław/ LUISS University).

1. Introduction

The last few years have led to significant changes in the fiscal powers of the EU. Considering the Covid-19 crisis, the European Commission (EC) proposed a substantial recovery package in May 2020. The package was debated upon and challenged in July 2020 and agreed upon in December 2020 by the European Council (Regulation of the European Parliament and of the Council of 12 February 2021, 2021). The Next Generation EU (NGEU) Funds have been implemented alongside the EU's Multiannual Financial Framework for the spending period 2021–2027 (Council Regulation of 17 December 2020, 2020). These funds have enlarged the fiscal capacities of the EU temporarily, with the debt being distributed through loans and grants under the Recovery and Resilience Facility. In 2021, the Multiannual Financial Framework was amended once again by redirecting cohesion funds towards member states' efforts to support Ukrainian refugees under the Flexible Assistance to Territories Package (EC, 2022b). This indicated remarkable flexibility regarding previously earmarked funding, which is usually not the case within the EU budget. Overall, these steps towards an enlarged fiscal capacity through debt issuance appear a significant development in the federalisation of the EU's fiscal powers. Our assessments of the budget's development are, however, based upon a central misunderstanding. The EU budget is understood in the same way as a public goods budget in a fiscal federal state, and we therefore speak about the EU budget with a fiscal federal vision in mind. However, the institutional structure of the EU budget can be described as a transfer budget, which is also highlighted in Woźniakowski et al.'s (2023) conceptualisation of the EU's weakness in independent revenues and high level of non-independent transfer capacities. As a result, the EU budget mainly provides for transfers between member states.

The main purpose of a transfer budget is to transfer financial means from one region or sector to another. The size of its revenue is decided upon ex-ante through a contribution key. The potentially heterogeneous interests of its members are safeguarded through a segmented budget structure wherein (most) expenditure is earmarked. It should be noted that while the revenue of the EU budget is legally the EU's own revenue, resources such as the gross-national-income-based resource are perceived as member states' contributions. Both the ex-ante agreement about the purpose of the budget as well as the rigidity and inflexibility of the system allow member states to calculate their gains and losses in the budget. The consequence is the *juste retour* dynamic, a simple cost–benefit calculation. This dynamic slowly became politicised over the course of the 1980s, given the UK's budgetary rebate crisis. The predictability of the member states' contribution has therefore become a necessity for agreeing to the shared budget. Once we step back from the developments between 2020 and 2022, we may observe change and evolution in the EU budget, not just regarding its size or its funding areas, but also treaties and amendments that have altered the budget (Laffan & Lindner, 2005, pp. 199–201). However, what is considered appropriate for the budget is steered by an underlying budgetary logic, that has remained the same since the 1970s. This underlying budgetary logic is essentially a historical institutionalist path dependency; to maintain this logic, institutional change and evolution of the budgetary system is necessary.

The main explanation as to why the EU budget has not developed into a public goods budget is not only limited to its position as a core state power (Genschel & Jachtenfuchs, 2013, p. 1). European integration has focused on the enlargement of the functional space at the European level, but questions related to identity or communities have remained at the national or regional levels due to the absence of a growing European identity or a European demos (Genschel & Jachtenfuchs, 2021; Hooghe & Marks, 2019; Kuhn, 2015). The kind of processes that allow agreement to be reached on what constitutes the right level of welfare or what kind of public goods are redistributed to whom require parliamentary legitimacy, public debate, and public discourse, as well as an elected government, which is not the case at the EU level. Hence, agreements related to public common goods continue to be routinely reached at the (sub-)national level of the member states. The existence of the EU's transfer budget is not necessarily a problem as such: When there is a functional need for instruments resembling those of a public goods budget, such as borrowing to stabilise its market or to support particular social groups, the EU can always temporarily deviate from the underlying budgetary logic and escape the transfer budget's institutional rules. The temporal nature of these instruments ensures that the budget returns to its old form post a pre-defined time span. Alterations also include the use of fiscal galaxies (Crowe, 2017). These circumventions do not require permanent changes to the EU budget, nor do they affect the underlying budgetary logic.

The EU budget has, however, not always been a transfer budget. It has evolved through an early critical juncture: The budget of the European Coal and Steel Community (ECSC) included features of a public goods budget. European budgetary history thus began with profound fiscal centralisation, agreed upon during the ECSC negotiations between 1950 and 1951. Revenues were gathered through a levy on coal and steel production and through borrowing on the international capital markets and were redistributed and allocated for research and investment, as well as for financial support to individual coal and steel workers during periods of retraining and unemployment (for an in-depth study, see also De Feo, 2015). The six delegations under Jean Monnet agreed upon major fiscal centralisation because they combined economic efficiency with social aims. It was decided that the ECSC's budget would be used as a public goods budget for the coal and steel sector. This does not mean that their aims always worked out as intended: The ECSC budget system displayed several shortcomings, and the High Authority's fiscal autonomy was continuously challenged by the member states.

Understanding the aforementioned context is important because the ECSC budget system depicts the differences between a public goods budget and a transfer budget. In particular, the recent alterations to the fiscal powers involve attempts to use the EU budget more as a public goods budget and no longer as a transfer budget alone. EC publications and statements by heads of state and government justify this move to support European citizens in times of growing inequality, citing the Covid-19 pandemic, the need for a digital and green transition, and the war in Ukraine. However, the institutional structure of the budget, including its underlying budgetary logic, clashes with these new policy ideas. The budget is not designed to meet these challenges because its institutionalised purpose is to allocate transfers between states, regions, and some sectors.

The above argument has been elaborated in this article as follows. A short literature review contextualises my argument in the empirical and theoretical literature on the EU budget. I then trace the negotiations of the ECSC budget system, elaborating how and why the delegations agreed upon the centralised system between 1950 and 1951. Consequently, I elaborate on the identified critical juncture: the European Economic Community (EEC) regarding its transfer budget, including the establishment and reinforcement of its underlying budgetary logic. The last section concludes the article.

The analysis of the negotiation procedures between 1950 and 1951 is based upon freshly collected archival material from the Historical Archives of the EU (Florence, Italy). This archive holds a variety of dossiers of meeting minutes and delegations' reports for the time period from June 1950 until the agreement on the Treaty of Paris in April 1951. The Archiv der Sozialen Demokratie (Bonn, Germany) was also consulted because it holds confidential communications between trade union representatives from the coal and steel industries in France, West Germany, Italy, Belgium, Luxembourg, and the Netherlands, as well as communications with member state delegations. Trade union representatives had crucial insights about the negotiation proceedings, as some of them were present during the first half of the negotiation proceedings (roughly from June until November/December 1950). Most decisions regarding the budget's revenue acquisition were made in 1950, but decisions regarding the expenditure allocation were made during the second half of the negotiations in 1951. Importantly, the German or French titles, wherein I have cited the archival material, do not reflect the delegation that drafted these reports. The archival dossiers contain transcripts of meetings' minutes, drafted during the negotiations by administrative assistants, to be translated into the national languages. Hence, the German title of a reference does not indicate that the source has been compiled by a German delegate. It only indicates that the consulted dossier is the German language version. To ensure replicability and transparency, all consulted and cited archival data has been digitalised during the research process and can be consulted by readers.

2. The Transfer Budget of a Compound Polity

The EU is a compound polity, a "decentralised…fragmented political system" (Ferrera et al., 2023, p. 2) and the Weberian state structure is not a natural endpoint for the EU anymore (Eilstrup-Sangiovanni, 2022). Budgetary competencies or—in the words of the editors of this thematic issue—a polity's "fiscal capacities" remain limited at the supranational level (Woźniakowski et al., 2023). A budget allows a polity to exert central control (Tilly, 1994), which is not the case within the EU. Previous research analyses the weak pattern and limited extent of EU involvement in core state powers (Genschel & Jachtenfuchs, 2013). These researchers and the editors of this thematic issue highlight the small fiscal capacity of the EU, an element stressed throughout research on the EU budget (Laffan, 1997, p. 29; Lindner, 2006, p. 3). However, and here I depart from Woźniakowski et al.'s (2023) argument, interpreting EU fiscal developments in terms of fiscal federalism, may no longer be as revealing as we once thought. This is because the EU's fiscal competencies are not only determined by a struggle between the national and supranational levels but also by a struggle over the kind of issues to be funded or financed by the EU budget. The enlargement of markets and the "functional scale of governance" (Genschel & Jachtenfuchs, 2021, p. 350) have been uploaded to the EU level. However, the "scope of communities" (Genschel & Jachtenfuchs, 2021, p. 350) and matters related to these communities have remained at the nation-state level. The EU lacks a growing European demos and most European citizens have not adopted European identities (Kuhn, 2015, p. 145). While events such as the Covid-19 pandemic have turned the post-functional trade-off upside down (Genschel & Jachtenfuchs, 2021, p. 350), such turns are issue-specific: Matters related to health or natural disasters are much more likely to invoke feelings of solidarity among Europeans (Bremer & Genschel, 2020). Overall, issue-specificity linked to the question of who receives the financial means as well as the (a)symmetry of a crisis determine the agreement among member states on fiscal solidarity.

As an alternative analytical lens, historical institutionalism captures the specific institutional evolution of budgetary institutions: "How (do) temporal processes and events influence the origin and transformation of institutions" (Fioretos et al., 2016, p. 4)? Historical institutionalism allows an assessment of the "kind" of path dependency that structures the development of the EU budget. Identifying critical junctures as moments of substantial change allows us to understand why institutions develop differently, for instance, during times of uncertainty (Capoccia, 2015). Previous literature considers the EU budget as a matrix of independent institutions: The budget changes because new, additional institutional layers address previous inadequacies to preserve the balanced budget rule (Ackrill & Kay, 2006, p. 114). But it appears as if something else is going on. We know that institutional alterations can be necessary to fulfil specific institutional demands (Genschel, 1997). Institutional change is thus steered by a logic of appropriateness, wherein rules steer and structure what is considered "natural, rightful, expected and legitimate" (March & Olsen, 2004, p. 2). This logic therefore forms a sub-system, a metatheoretical lens of "the interrelationships among institutions, individuals and organisations in social systems" (Thornton et al., 2012, p. 2). Therefore, the EU budget is steered by a logic of how the budget's purpose and objective are perceived and accepted. This logic determines how individuals, ministers, heads of state and government, or staff of the institutions debate and discuss the budget and agree on institutional change. Institutional change is therefore necessary to safeguard the underlying budgetary logic and this institutional change can take very different forms.

Before explaining how this logic evolved, I first look at the negotiations between 1950 and 1951 in order to explain the ECSC's contrasting budget system including elements of a public goods budget.

3. Fiscal Centralisation in the European Coal and Steel Community

This section explores my claim of the ECSC budget system including elements of a public goods budget. To do so, I trace how the six member states agreed on the ECSC's budget system: Why and how did the six member states agree on such a high level of fiscal centralisation? And what purpose did they assign to the budget within the ECSC's wider aims? The choices during 1950–1951 were based upon Jean Monnet's and Robert Schuman's aim of tying Germany's coal and steel industry in a wider unification under the supranational High Authority, including economic and socio-political aims (Schuman, 1950). Moreover, they aimed for "equalization and improvement of the living conditions of workers in the [coal and steel] industries" (Schuman, 1950). These aims were repeatedly referred to during the negotiations.

3.1. The European Coal and Steel Community's Own Revenue Acquisition Through Debt and Taxation

Jean Monnet introduced his idea of a high level of fiscal independence during the first days of the negotiations in June 1950. He recommended that sufficient financial resources were to be gathered with a tax from "contributions that are levied on production units" ("Plenarsitzung der Konferenz über den Schuman-Plan in Paris on June 1950" in Schwarz, 1997). The gathered resources would allow for subsidising production sites and financial compensations for employees in case of companies' closures ("Plenarsitzung der Konferenz über den Schuman-Plan in Paris on June 1950" in Schwarz, 1997), thereby addressing socio-political aims. The High Authority would have the legal power to access loans to increase its financial capacities through the issuance of debt ("Allgemeines-Band 1," 1950). Within the gathered archival data, I could not find evidence of a delegation taking issue with the taxation system or the borrowing powers. Such straightforward agreement might also not be that unusual for the macroeconomic context of the 1950s, given the comfort of debt and active fiscal intervention in the post-war Keynesian framework. Directing revenue from national budgets to a European project, whose success was entirely unclear, would have arguably been difficult to justify before parliaments and citizens in a post-war period. The revenue system of the ECSC became entrenched in Art. 49 of the Treaty of Paris. Coal and steel companies were to transfer the levy to the High Authority via assigned regional banks from 1953 onwards (Commissaire aux Comptes, 1953, p. 26). It should be noted, however, that while fiscal capacity was entirely autonomous, the revenue complexity was extremely low with only two revenue sources. Moreover, all six member states had been recipients of the US Marshall Fund since 1948. The US exerted considerable influence to ensure that the Schuman Plan was successfully implemented, which might have weakened the delegation's reluctance to have their coal and steel industries emit levies to the High Authority.

In 1953, the High Authority received the first levies from coal and steel plants, with the maximum of the levy being calculated according to the products' net proceeds (Commissaire aux Comptes, 1954, pp. 80–81). The High Authority could save money and place it into a reserve fund for times of economic downturn (Vertrag über die Gründung der Europäischen Gemeinschaft für Kohle und Stahl, 1952, Art. 15.3), omitting the principle of a balanced budget. The self-sustainability of this revenue system became a problem in the long run: The future problems of the coal and steel industry had been unforeseeable, triggered by increasing Brazilian and US coal and steel competition starting in the late 1950s. The 1970s were a period of slow economic growth after the first oil crisis (1973), including recession, unemployment, and inflation (Wallace, 1980, p. 55). Reports from the late 1970s and 1980s show how the funds were used for workers' housing, re-employment, and general supportive measures (Commission of the European Communities, 1977, Annex C, 1980, pp. 18–19). However, the decreasing levy seriously affected the feasibility of the socially-minded policies of the ECSC. The Commission stated in an aide-mémoire from November 1977, that the structural difficulties in the coal and steel industry were causing serious budgetary problems (Commission of the European Communities, 1977, p. 22). The evolution of the levy is visualised in Figure 1, which covers the entire period of existence of the ECSC. The levy rate remained as high as 0.9% from 1952 to 1957, then fell from 1957 onwards and never recovered. The lowest rate of 0.2% was applied in 1962, then stabilised at around 0.3% until 1991, before being set at 0% from 1988 until 2002.

In 1955, the High Authority issued the first loan in the US amounting to 62,333.02 European currency units (ECU)/USD (Commissaire aux Comptes, 1956, p. 123). The budget report cites all figures in Belgian Francs, which have been translated into the ECU by the author. The USD and the ECU have been linked via the European Monetary Agreement since 1955. Adjusted to the prices of January 2020, this amounts to 601,957.88 USD. To put this into perspective, the Marshall Fund, the US reconstruction programme for Europe, amounted to 13 billion USD, which would amount to approximately 140 billion USD as per 2020 prices. The ECSC loans were distributed for unspecified purposes and for building houses for coal and steel workers in Germany and Belgium (Commissaire aux Comptes, 1956, p. 123). Two loans of one million ECU/USD (9,657,126,865.67 dollars in 2020 prices), taken up for the budgetary year 1955–1956 and distributed across the entire Community, had a much greater impact (Commissaire aux Comptes, 1956, p. 215). It is of course difficult to assess the overall impact of the investments made through the above-mentioned loans; rather, these figures are evidence of the High Authority's political scope for revenue generation.

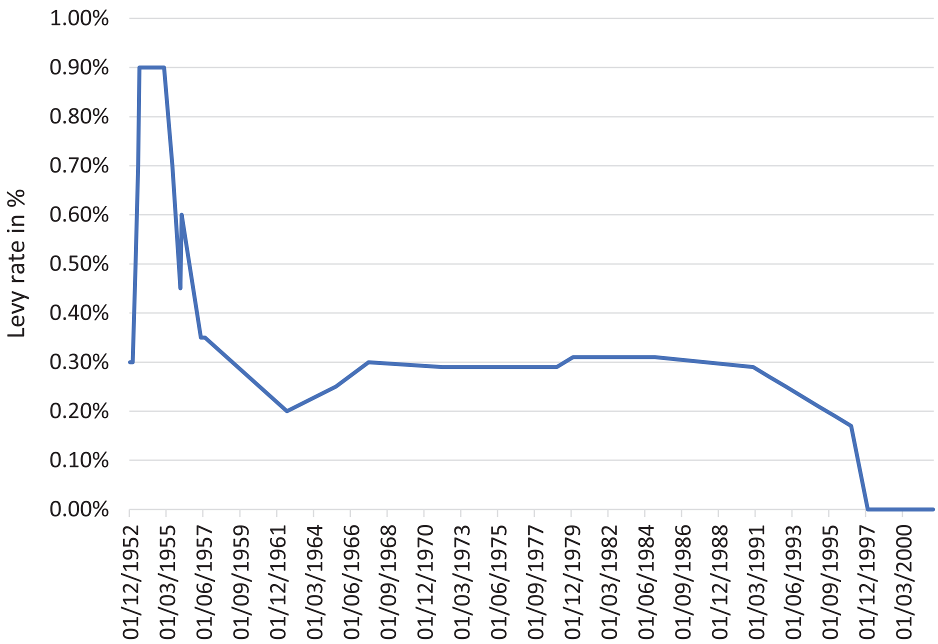

Figure 1. The evolution of the levy on coal and steel produce between 1952 and 2022. Source: Author's own graph, based upon data from the Centre virtuel de la connaissance sur l'Europe (2016).

Why could the ECSC not use debt to finance support measures for coal and steel workers during the crisis of the 1970s? The type of revenue was earmarked for expenditure: Debt could finance investment and research projects but could not be used to finance non-refundable payments to workers and other such expenses (Vertrag über die Gründung der Europäischen Gemeinschaft für Kohle und Stahl, 1952, Arts. 51 §2, 56.b; Weides, 1960, p. 213). The earmarking of the budget segments was not always respected in the ECSC, but it would become an important part of the future transfer system of the EEC. To circumvent the decreasing revenue from the levy, the EEC decided during the 1970s to use the Regional Fund and the European Investment Fund to top up financial assistance for the resettlement of former coal and steel workers, which was justified with reference to "community solidarity" (Commission of the European Communities, 1977, p. 18). This is an example of the kind of temporary flexibility to circumvent the rigid and inflexible nature of the EEC budget, which may be traced throughout Europe's budgetary history.

3.2. The European Coal and Steel Community's Expenditure for Socio-Economic Aims

One feature of a public goods budget is to create welfare and provide necessary public goods. A central focus of the ECSC budget was the social support for coal and steel workers ("Besprechung beim Vorsitzenden der Konferenz über den Schuman-Plan, Monnet, in Houjjarray on July1950" in Schwarz, 1997). According to Jean Monnet, the inclusion of social aspects should create a feeling of hope among the workers: "The workers must believe in the plan as a hope" ("Besprechung beim Vorsitzenden der Konferenz über den Schuman-Plan, Monnet, in Houjjarray on July" in Schwarz, 1997). He was addressing a shared demand from the European trade unions: to unify Europe, improve living standards, and ensure full employment and social justice (International Confederation of Free Trade Unions, 1950, pp. 1–2). These socio-political aims were reflected in the budget system through an agreement on non-refundable payments to individual coal and steel workers. Since the creation of the single coal and steel market could force companies to shut down, the High Authority was required to provide financial assistance to those affected or fund their training for re-employment ("Verschiedene Dokumente, Band 1," 1950). These non-refundable payments were co-financed, with 50% coming directly from member states' public budgets. An example of non-refundable payments is seen in the 1955–1956 budget report. The High Authority financed social housing projects, investment in research and the dissemination of information about research projects (Commissaire aux Comptes, 1956, p. 99). Payments were directed to French, Italian, and Belgian workers (Commissaire aux Comptes, 1956, p. 115).

Further, member states agreed on a temporary compensation fund for some countries, which would facilitate the creation of a single market to avoid a steep fall in prices for companies that worked unprofitable ("Allgemeines-Band 1," 1950). The agreement on the compensation fund caused much more intense discussions, both its redistributive character and potential losses were much more pronounced. The Italian delegation stressed the need for this fund for its steel companies and the Belgian delegation for its coal production ("Allgemeines-Band 1," 1950). The German delegate

Walter Hallstein reported to his foreign ministry that the compensation funds were "in principle desired. Tendency: No one wants to pay. Everyone wants to receive. The raised task [of creating the single market for coal and steel] cannot bypass compensation funds" ("Schumanplan-Verhandlungen," 1950, translation by the author). In spite of some delegations' reluctance, the compensation fund was eventually agreed to ("Verschiedene Dokumente, Band 1," 1950). This temporary instrument is mentioned in the budget reports from 1953 onwards for the transitional period until the full establishment of the coal and steel market.

Moreover, the six delegations struggled to arrive at a consensus over the decision-making power of expenditure allocation: Jean Monnet argued that only the High Authority should decide on expenditure, thus limiting the powers of national governments to channel investments to their own coal and steel companies ("Verschiedene Dokumente, Band 1," 1950). During these discussions, there was a recurring element involving weighing the intention to create a relatively autonomous High Authority, "to leave old forms of governmental cooperation behind" versus keeping national control over the sectors ("Allgemeines-Band 1," 1950). The final decision to have the High Authority decide over investments (Vertrag über die Gründung der Europäischen Gemeinschaft für Kohle und Stahl, 1952, Art. 54), formally made the institution an autonomous actor in allocating expenditure, but it was informally challenged by the member states (Kaiser, 2018, pp. 252–254).

Overall, the simultaneous agreement on economic as well as social aims resulted in a centralised budget with features similar to a public goods budget. During the negotiations, the member states weighed the benefits versus the costs of the budget (now referred to as the juste retour logic). They agreed on fiscal solidarity to support those member states whose coal and steel economies and workers were in particularly dire situations. And, we do have evidence that the ECSC's financial support improved coal and steel workers' living and working conditions (Groenendijk & Hospers, 2002, p. 603), though other funds, such as the Marshall Plan or the short-lived European Payments Union, provided substantially greater financial resources (Gillingham, 2014, p. 63).

4. The Evolution of the Transfer Budget Since 1957 and Its Underlying Budgetary Logic

The change from the ECSC budget system to the EEC budget system constitutes a critical juncture in Europe's budgetary history, primarily based on the contrary governance features of the EEC. The intergovernmental EEC was primarily a rejection by the member states of the supranational ECSC and dirigiste High Authority. To sustain the EEC's work, the six member states agreed on a highly-segmented budget structure with earmarked funding, financed through member states' contributions. Therefore, the practice of segmentation and earmarking as well as the use of temporary funding instruments constitute a continuity between both budget systems. However, the transfer budget system since the EEC has even weaker features than the budget of an international organisation (see Patz & Goetz, 2019). The member states and not the Commission of the Communities decide over its fiscal capacities. Some features of the segmented nature and the practice of earmarking were also implemented in the EEC but with a balanced budget: Debt issuance was moved outside the budget system into the European Investment Bank to sustain planned economic investments. The carefully earmarked segments, several of which were already capped during the Treaty of Rome negotiations, allowed agreement among a multitude of heterogenous interests securing national preferences and trade-offs. Table 1 illustrates the differences between a transfer budget and a public goods budget.

Member states awareness around the potential limitations of the EEC's budget has existed since its creation: The central article on the creation of own resources (now Art. 311 of the Consolidated Version of the Treaty on the Functioning of the European Union, 2012) was debated by the delegates for the future option to create own resources. Policymakers imagined that soon questions about the fair distribution of member states' contributions would be made redundant through the introduction and replacement of financial contributions with own resources ("Entwurf eines Protokolls der Konferenz der Aussenminister," 1957). Throughout the 1960s, such ideas were continuously discussed, after being delayed by the Empty Chair Crisis. However, the budget treaties promised a replacement of all member states' contributions with their own resources. The initial period of institutional openness for the budget system was once again avoided by the refusal to increase the value-added tax after the 1970s. Changes to the budgetary institutions continued. Other resources were introduced under the Delors I and II agreements, the introduction of the resource calculated with the gross national income (Laffan, 1997, p. 38). These changes did not only address the lack of revenue but also challenged the prominence of the Common Agricultural Policy to increase the importance of cohesion funds. Throughout these decades, various plans for budgetary reform were always available: plans to increase own resources, to increase the overall size of the budget, to strengthen the social dynamics of the budget, and to introduce other areas of expenditure (Sapir et al., 2004).

Yet, the logic of the budget, of what was considered appropriate and acceptable, became reinforced over time. This underlying budgetary logic consists not only of institutional practices but also political perception. The segmented nature of the budget preserves member states' pre-negotiated funding preferences and limits the EC's ability to redirect revenue without the Council's approval. The segmentation specifies the purpose for

Table 1. Differences between a public goods budget and a transfer budget.

	Public goods budget	Transfer budget
Principles	A public goods budget facilitates a polity's welfare regime (e.g., unemployment benefits) and provides common goods (e.g., maintaining an education system and infrastructure). It can be adapted to different economic cycles to stabilise the economy in times of boom and bust.	The central purpose of this budget is to transfer funds from one region, state, or sector to another. Fiscal galaxies allow sub-groups of members/states to pursue budgetary goals that not all members agree to.
Revenue acquisition	A public goods budget allows autonomous decision-making to demand more revenue; "including rules concerning the extraction of revenue" (Levi, 1988, p. 1). Taxation requires representation and democratic accountability. To stabilise the economy, it can issue debt or have deficits and pursue anti-cyclical policies.	Revenue is decided upon ex-ante, before the beginning of a budgetary year(s). The contributors to the budget will try to calculate their gains and losses (the juste retour calculation); this might trigger discussion about the fairness of a member's contribution. Debt is avoided because it endangers the predictability of future financial burdens.
Expenditure allocation	Expenditure will be allocated to a variety of aims and can be moved among expenditure goals with flexibility. Such flexibility might be necessary to address changing socio-economic circumstances. The expenditure allocation will also be targeted towards individuals.	Expenditure is decided upon ex-ante and distributed among budgetary segments and earmarked. Alterations to the previously agreed expenditure allocation require time and consensus: The contributing members will have to agree to the alterations and recalculate how this alters their revenue contribution and expenditure expectations.

which the means are used, and the practice of earmarking specifies how much of the means are agreed upon. Consequently, member states do not agree to reform proposals wherein revenue is neither segmented nor earmarked (see Sapir et al., 2004, p. 186, who argue in favour of a reform proposal in which at least a part of the budget revenue is neither segmented nor earmarked).

Moreover, budgetary revenue predominantly consists of actual or perceived member state contributions even though it is legally the EU's own (as specified in Art. 311 TFEU; Council Decision of 14 December 2020, 2020). The gross national income contribution is perceived as member states' contribution. It is frequently communicated to the electoral audience as a substantial financial loss and, therefore, perceived as a bill that the EU writes to its member states. Another more recent example is the resource from the new tax on non-recycled plastic, which has been rebated like any other member state contribution. The Council weakened the Commission's proposal with a yearly lump sum reduction (Council Decision of 14 December 2020, 2020, Arts. 1c, and 2) and the tax contributed was a meagre €5.8 billion to the annual revenue of €239.6 billion in 2021 (EC, 2022a). More European taxation thereby results in more own resource revenue, but it does not alter the perception of who contributes with more financial means to the EU. Therefore, it does not challenge the underlying logic of the transfer budget. It would be necessary to create own resources that cannot be used for member states' perceptive purposes of the payer versus receiver logic (for an in-depth discussion, see García Antón, 2023).

Functional necessity can, however, trigger deviations from the underlying budgetary logic. Examples of this include the miniature debts issued by the EC in the 1970s and 1980s (Horn et al., 2020), or the temporary introduction of debt to finance the NGEU funds. In the case of the NGEU, the EC has been empowered to issue loans on behalf of the EU, while the member states steer the allocation of the resources under the Recovery and Resilience Facility (Regulation of the European Parliament and of the Council of 12 February 2021, 2021, Art. 12). Another example is the more recent redirection of €17 billion from cohesion and social funds, to support member states' efforts to help Ukrainian refugees (Regulation of the European Parliament and of the Council of 19 October 2022, 2022). However, these temporary deviations do not change the underlying logic.

5. The Establishment of Next Generation EU Funds and the European Coal and Steel Community Agreement

Both the insights into the ECSC budget system, as well as the evolution of the EU's budget since 1957, allow us to understand the recent development of the NGEU funds in a new light. This is because there are important similarities between the objectives of the ECSC budget and the budgetary changes introduced under the NGEU funds. These similarities are summarised in Table 2, followed by an explanation of this observation.

Table 2. Similarities between revenue and expenditure of the ECSC budget system and the NGEU funds.

	Budget system of the ECSC	Changes introduced under the NGEU funds
Revenue similarities	Revenue is gathered through a levy subjected on coal and steel produce. The High Authority is also allowed to issue debt. The maximum levy is decided by the Council.	The EC is allowed to issue debt, but the amount is limited ex-ante (€750 billion, in 2019 prices). It remains unclear how the debt will be repaid, but repayment will start in 2028 until 2058 (EC, 2023a).
Expenditure similarities	The High Authority uses its revenue for common goods, such as social support for individual coal and steel workers. It also uses its revenue for task-related objectives, such as investment in research and social support for individuals.	The NGEU funds include new policy objectives related to investment and the digital and green transition. These funds also include instruments to support individuals, the Support to Mitigate Unemployment Risks in an Emergency instrument and are public goods oriented (the Recovery and Resilience Facility and the Just Transition Fund).

The first part of this article has outlined several elements within the ECSC budget that resonate with a public goods budget. The delegates agreed in 1950 and 1951 that the budget should deliver not only financial transfers but also social aims. All member states kept an eye on a just distribution and returns for their own national sector, but they also accepted a substantial level of fiscal solidarity and redistribution among the industry's workers.

The redistributive elements of the NGEU funds increasingly touch on the objectives of a public goods budget. These instruments seek to address already existing vulnerabilities of the EU's member states, many of them being long-term consequences of the financial and eurozone crisis (Armingeon et al., 2022). The Support to Mitigate Unemployment Risks in an Emergency instrument includes non-refundable support to individuals, to prevent sharp rises in unemployment (Andor, 2020). Policy priorities under NGEU range from social and health priorities to technical innovations (Regulation of the European Parliament and of the Council of 12 February 2021, 2021). These social aims are included in several new EU initiatives. The EU declares to strive for a just transition—"leaving no one behind" (EC, 2023b)—and suggests a new form of solidarity and willingness for fiscal redistribution. The Common Provisions Regulation includes more specific criteria regarding the funds' distribution to "prevent any discrimination based on gender, racial or ethnic origin, religion or belief, disability, age or sexual orientation during the preparation, implementation, monitoring, reporting, and evaluation of programmes" (Regulation of the European Parliament and of the Council of 24 June 2021, 2021, Art. 9). There is thus an increasing focus on individual recipients. These instruments aim to not only address economic aims but also social aims, sustaining important observations about "policy learning" (Capati, 2023; Schelkle, 2021, p. 52). At the heart of these debates is an ever-existing question of the overall purpose of the EU budget, either as an instrument to provide side payments as part of the single market, or to facilitate the promotion of equality and solidarity on a more genuine level (Lindner, 2006, p. 6). However, the EU's ability to renegotiate the latter choice is limited by the EU budget's institutional structure of the budget. Since the member states rely on the ex-ante predictability of financial costs, they cannot abandon the existence of its *juste retour* dynamic.

6. Conclusion

The article argues that we should assess changes in the EU's fiscal capacities in terms of its structure as a transfer budget as well as an underlying budgetary logic. The agreement on the NGEU Funds as temporary change does not challenge this logic. Therefore, it is not clear whether the consensus about the NGEU funds will result in a more fundamental alteration of the budget's role in the EU, or whether the institutional structure will revert to its old form. The necessity to repay the issued debt may also have a sobering effect on future plans and result in a much smaller Multiannual-Financial Framework for the spending period 2028–2034. A fundamental reformation of the transfer budget is unlikely because its structure is closely intertwined with the features of the EU as a polity. There is therefore no institutional context in which the budget could be transformed into a public goods budget. Maintaining the underlying budgetary logic of the transfer budget is, therefore, a necessity for the EU to agree on its budget, as permanent deviations from this logic jeopardise the predictability of member states' budgetary costs and benefits. The wishful thinking of breaking away from the underlying budgetary logic has been a recurrent element since the mid-1970s, but member states have no functional need, nor is it in their economic interest, to deviate from it.

However, it is likely that the temporary introduction of instruments, which mirror features of a public goods budget, will become more frequent. In times of polycrisis

(Zeitlin et al., 2019), the EU may have to agree on ad hoc budgetary solutions, to avoid disrupting the single market and to ensure that the cohesion of the EU does not decline further. The worsening climate crisis is unlikely to be perceived as the fault of any one member state and is likely to evoke feelings of European solidarity similar to those seen during the Covid-19 crisis (Cicchi et al., 2020). However, the repeated reliance on such temporary instruments raises questions about fiscal injustice. This is because fiscal solidarity at the EU level seems to be issue-specific: Natural disasters or exceptional health crises are perceived as European problems. Structural inequalities, such as poverty, do not trigger feelings of European solidarity. Therefore, they are not addressed by the EU budget, although they may well be linked to the austerity measures implemented through the EU's broader fiscal framework and fiscal regulations.

Acknowledgments

The author would like to express her thanks to Erik Jones, Philipp Genschel, Anja Thomas, Waltraud Schelkle, and Thomas Winzen. Special thanks go to Jordy Weyns, who carefully reread several versions of this article and pointed out empirical inaccuracies and logical errors. Pandelis Nastos and Gjovalin Nikolli supported the data collection at the Historical Archives of the European Union (Florence, Italy). Gregor Zons facilitated an in-depth discussion of a draft version of this article at the Colloquium of the Department of Political Science at Heinrich-Heine University (Düsseldorf, Germany). The participants of the thematic issue workshop Comparative Fiscal Federalism and the Post-Covid EU (Rome, Italy) contributed with further helpful comments. Special thanks go to the editors of this thematic issue: Tomasz Woźniakowski, Tiziano Zgaga, and Sergio Fabbrini and to the three anonymous reviewers that provided extremely helpful comments.

Conflict of Interests

The author declares no conflict of interests.

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