



Budget-related cross-border flows: EU versus US

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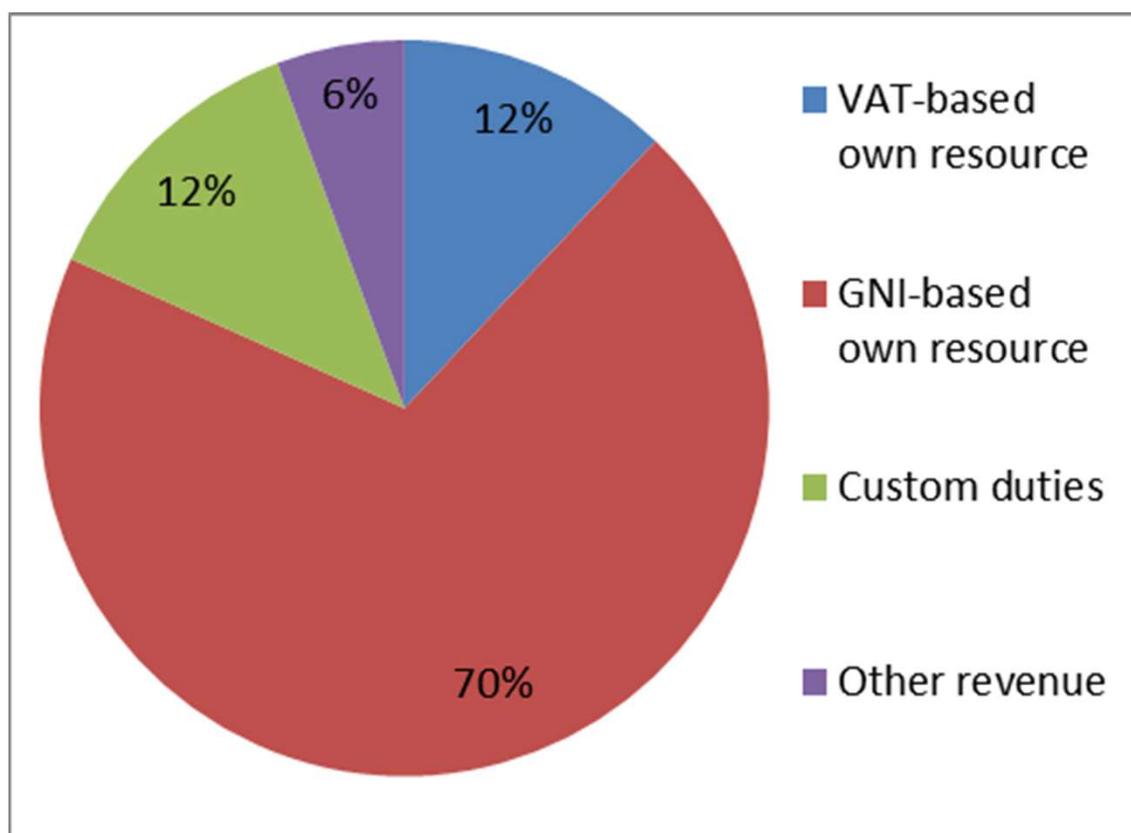


Why looking (again) at EU-budget related cross-border flows?

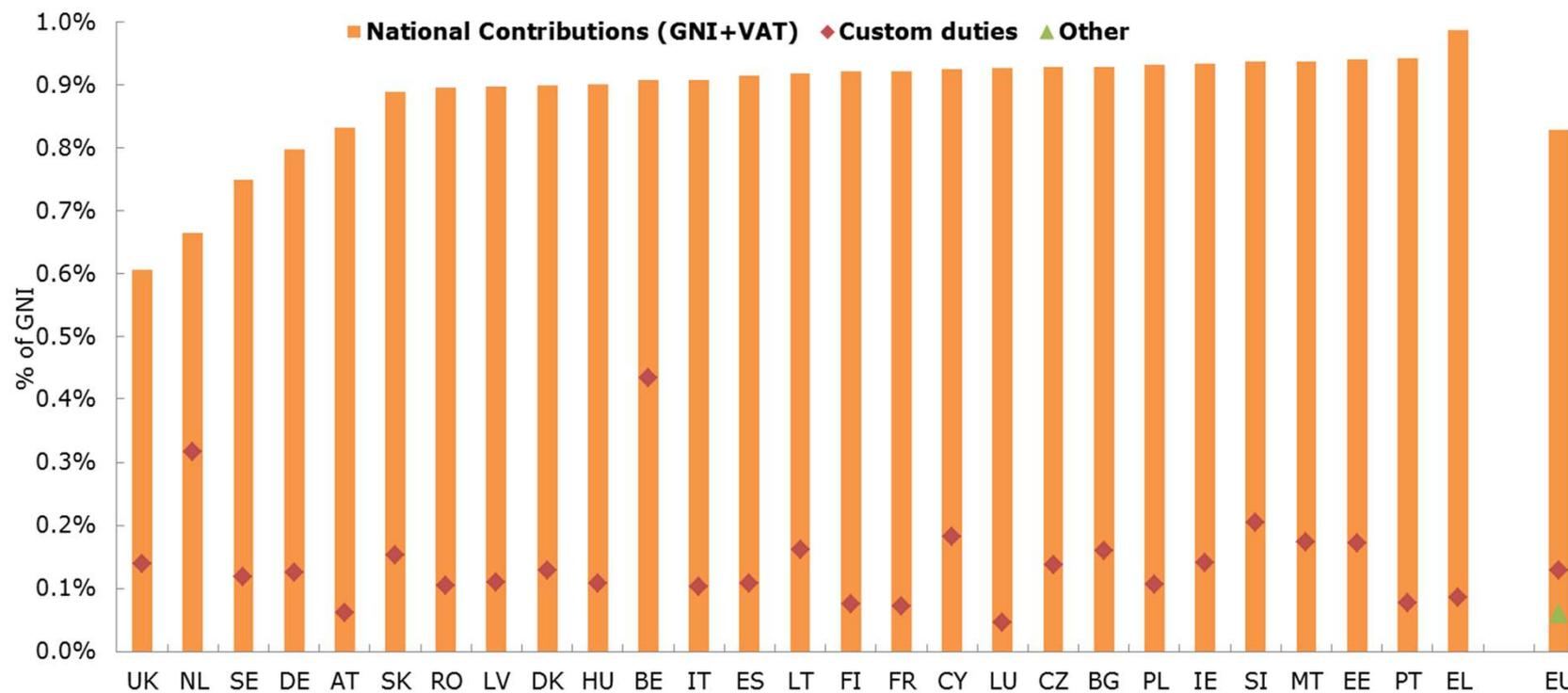
- *General lack of clarity about the scope and functioning of the EU budget*
- *Lack of comprehensive measures of cross-border flows for the EU as a whole*
- *The great recession has (re)brought to the fore the debate on the role of central governments and macroeconomic stabilisation in the context of decentralised fiscal frameworks. Looking at what is in common and what is not outside the EU can be a useful starting point for framing further reflections*



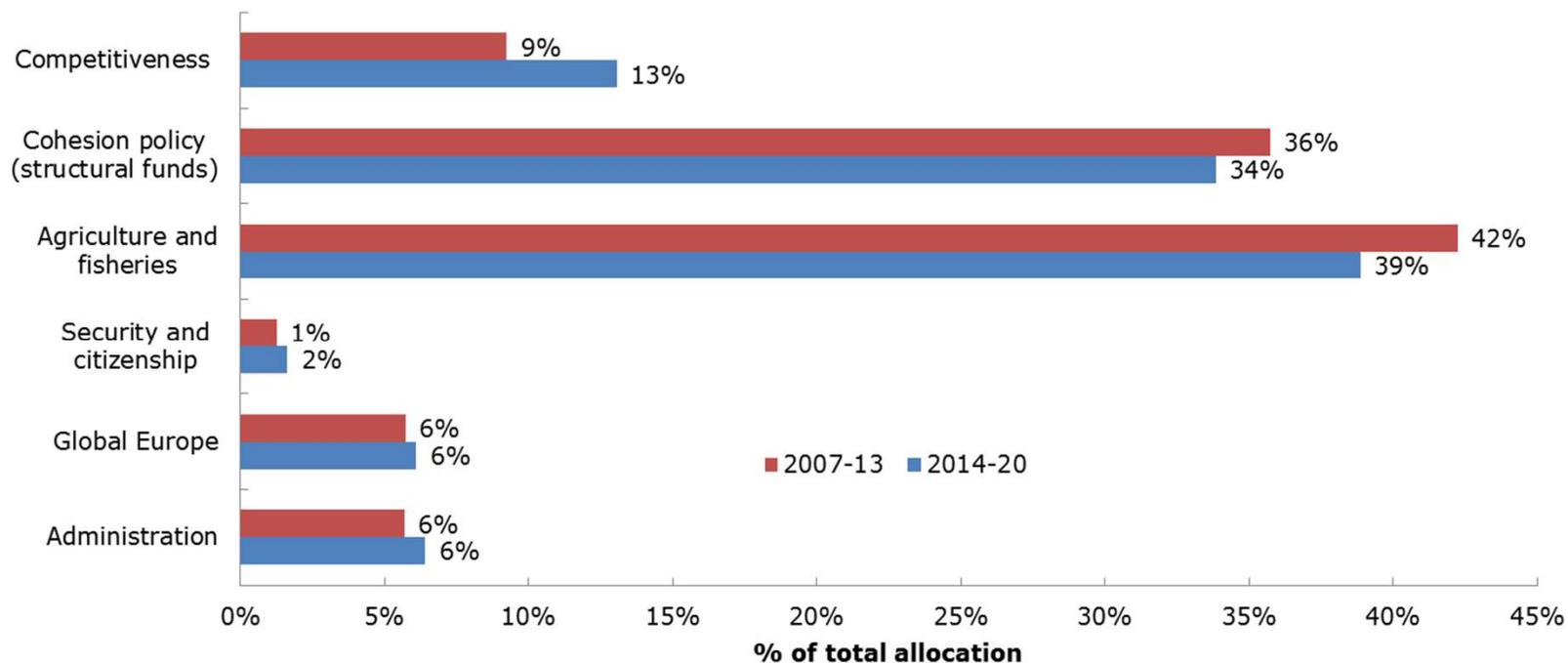
The EU Budget: the revenue side (2007-13 average)



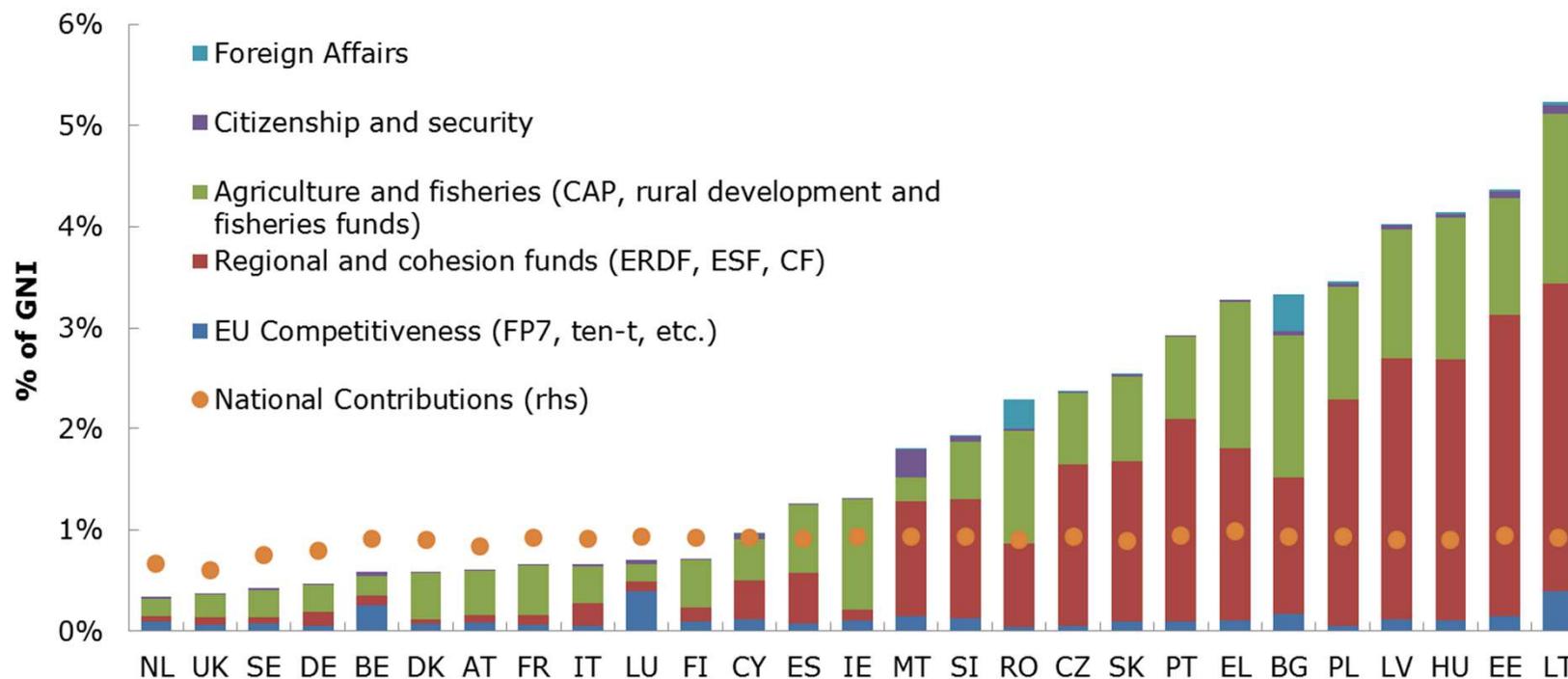
The EU Budget: the revenue side (2007-13 average)



The EU Budget: the expenditure side (2007-13 average)



The EU Budget: the expenditure side (2007-13 average)





Great carefulness needed when using "net balances"...

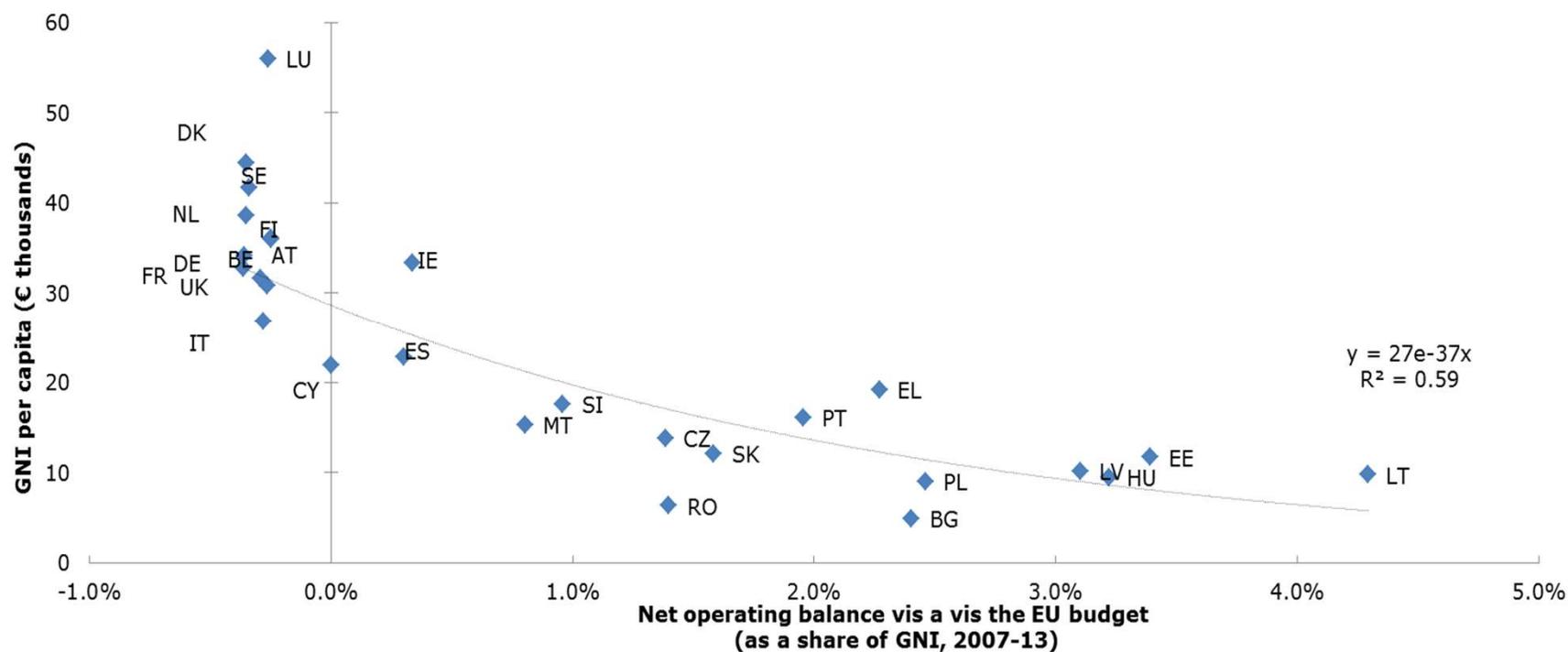
- *All too easy to misinterpret them as 'net benefit/return' from the EU budget*
 - A zero-sum game?
 - Input and output? What counterfactual?
 - Spill-over effects and common gains?
 - Cash (not accrual) data
 - Mapping of final beneficiaries
 - Investment leveraged through financial instruments not considered





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...and yet we must live in these times



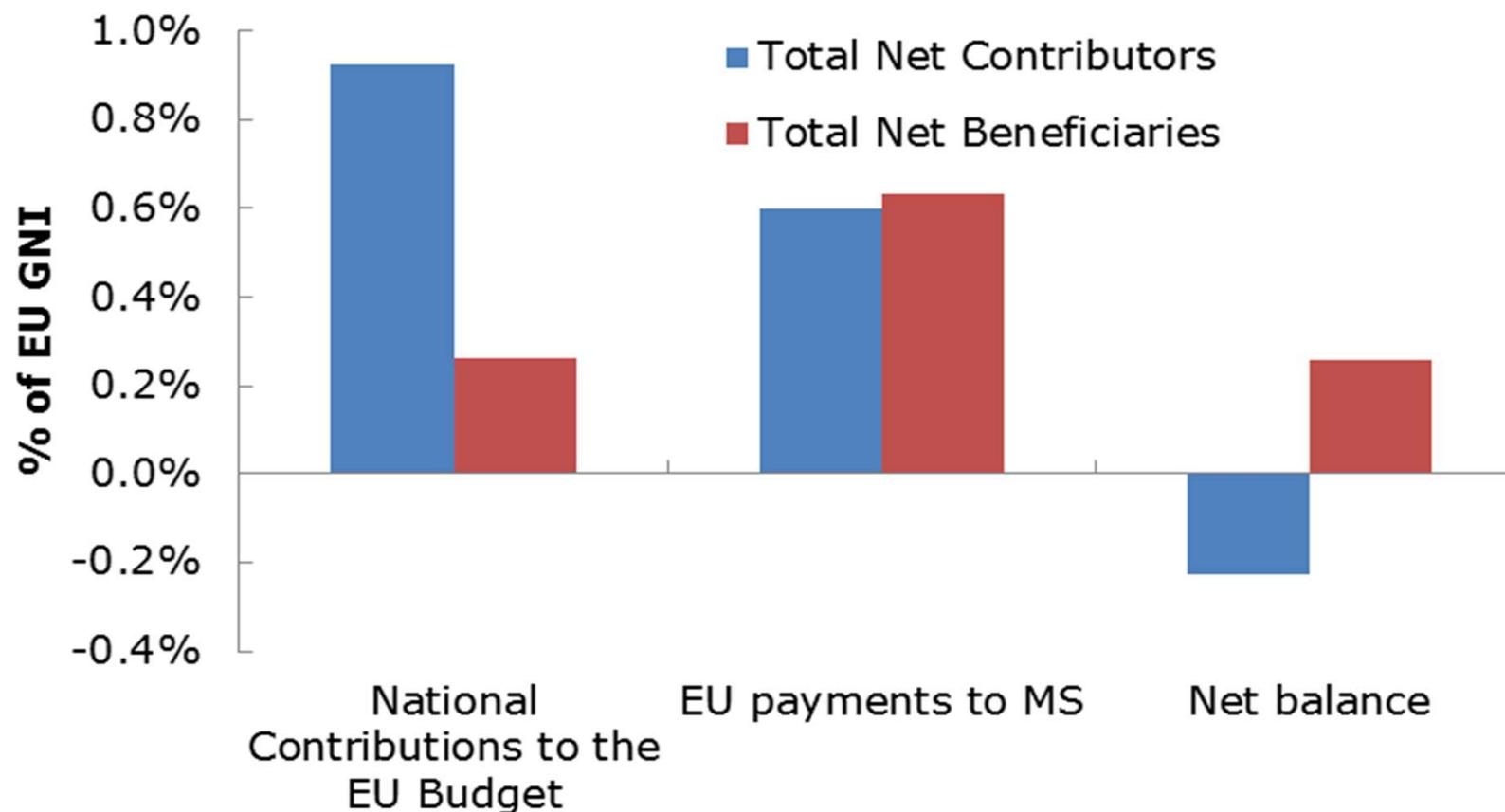


How big are EU budgetary cross-border flows for the EU as a whole?

- *Country-specific flows do not provide an indicative measure of the overall magnitude of cross-border flows operated through the EU budget.*
- *To do so, an additional broader measure of cross border flows for the EU as a whole is proposed*
- *This indicator can be calculated by dividing the total amount of net inflows paid by net contributors (or net outflows received by net beneficiaries) by the GDP of the EU.*



Cross-border flows operated through the EU budget (2007-2013 average)





1st benchmark: Official Development Assistance (ODA)

Official Development Assistance, net disbursement	2007	2008	2009	2010	2011	2012	2007-12 average
Austria	1808	1714	1142	1208	1111	1106	1348
Belgium	1951	2386	2610	3004	2807	2315	2512
Czech Republic	179	249	215	228	250	220	223
Denmark	2562	2803	2810	2871	2931	2693	2778
Finland	981	1166	1290	1333	1406	1320	1249
France	9884	10908	12602	12915	12997	12028	11889
Germany	12291	13981	12079	12985	14093	12939	13061
Greece	501	703	607	508	425	327	512
Ireland	1192	1328	1006	895	914	808	1024
Italy	3971	4861	3297	2996	4326	2737	3698
Luxembourg	376	415	415	403	409	399	403
Netherlands	6224	6993	6426	6357	6344	5523	6311
Poland	363	373	375	378	417	421	388
Portugal	471	620	513	649	708	581	590
Slovak Republic	67	92	75	74	86	80	79
Slovenia	54	68	71	59	63	58	62
Spain	5140	6867	6584	5949	4173	2037	5125
Sweden	4339	4732	4548	4533	5603	5240	4833
United Kingdom	9849	11500	11283	13053	13832	13891	12235
EU Institutions	11634	13197	13581	12747	17391	17479	14338
Total	73836	84953	81529	83145	90287	82203	82659
Total (as a share of average EU GDP 2007-12)							0.50%

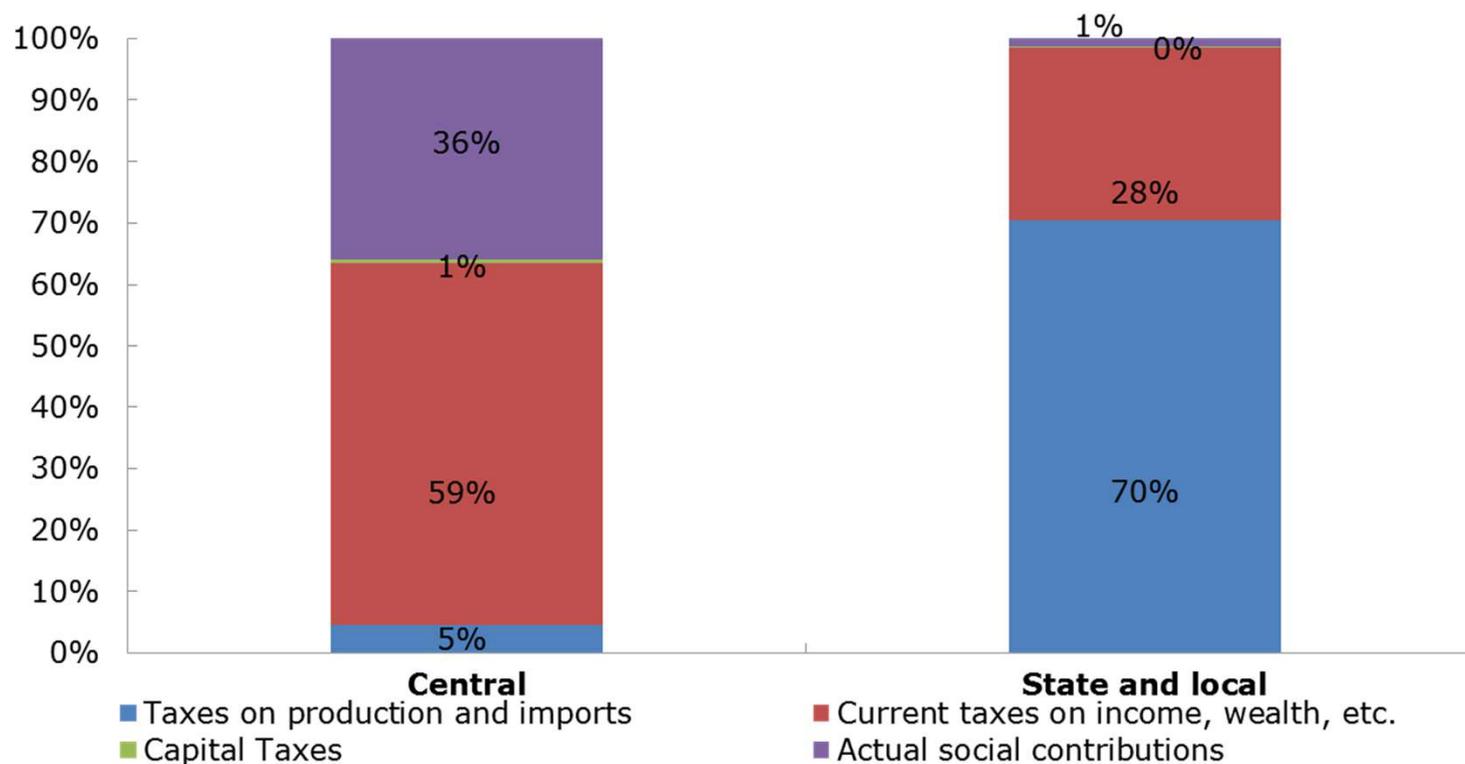


2nd macro-economically relevant benchmark: the US (but with important caveats)

- *Unlike the EU, the US is a fully fledged fiscal and political union.*
- *Taxes collected at the federal level have ranged between 14% and 20% of GDP for the last 50 years, with an average of 17%.*
- *The federal government in the US is responsible for more than half of total public expenditure, averaging at about 20% of GDP.*



Total revenue at the Central, State and Local Government level in the US, % of total

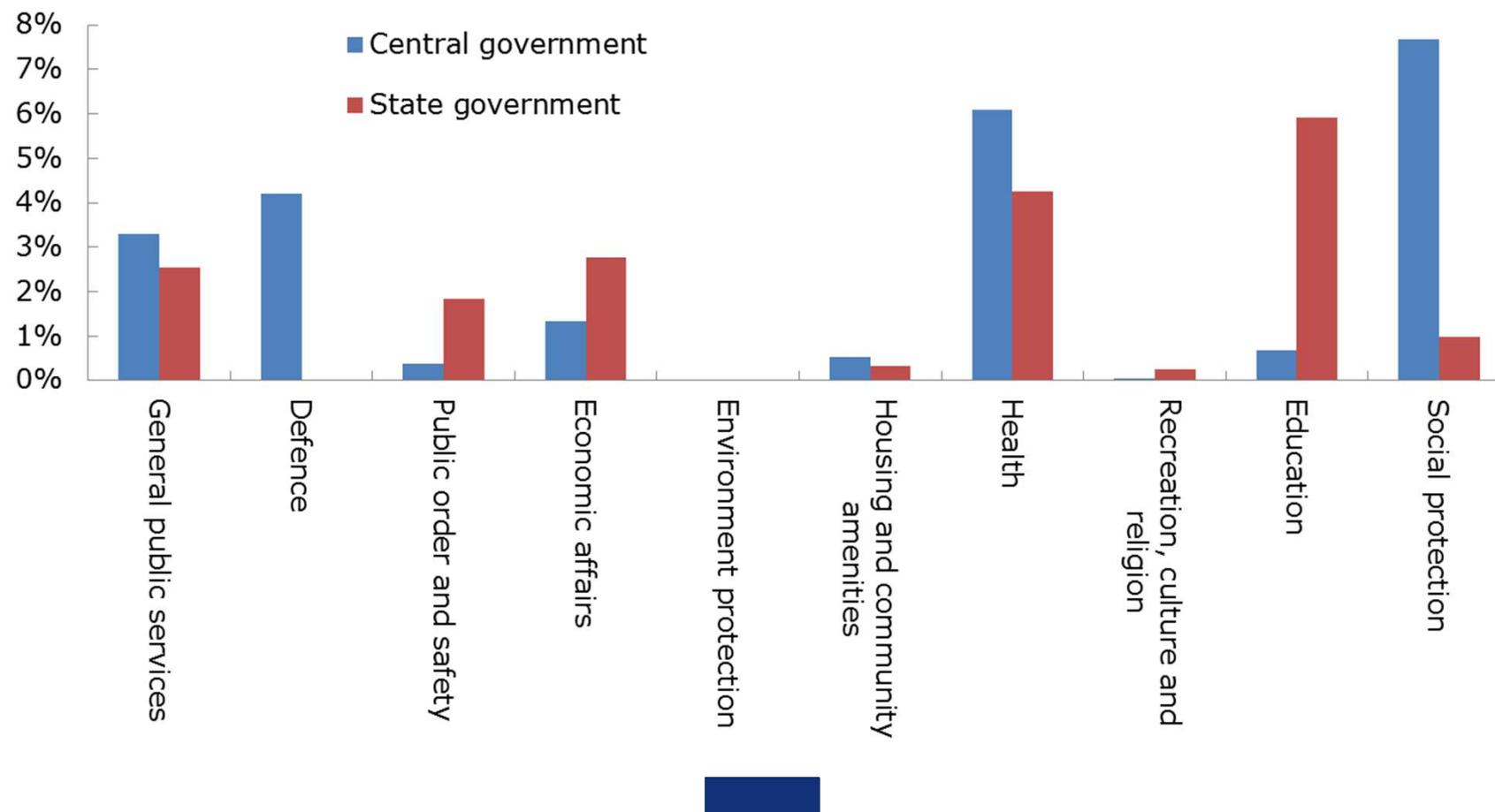




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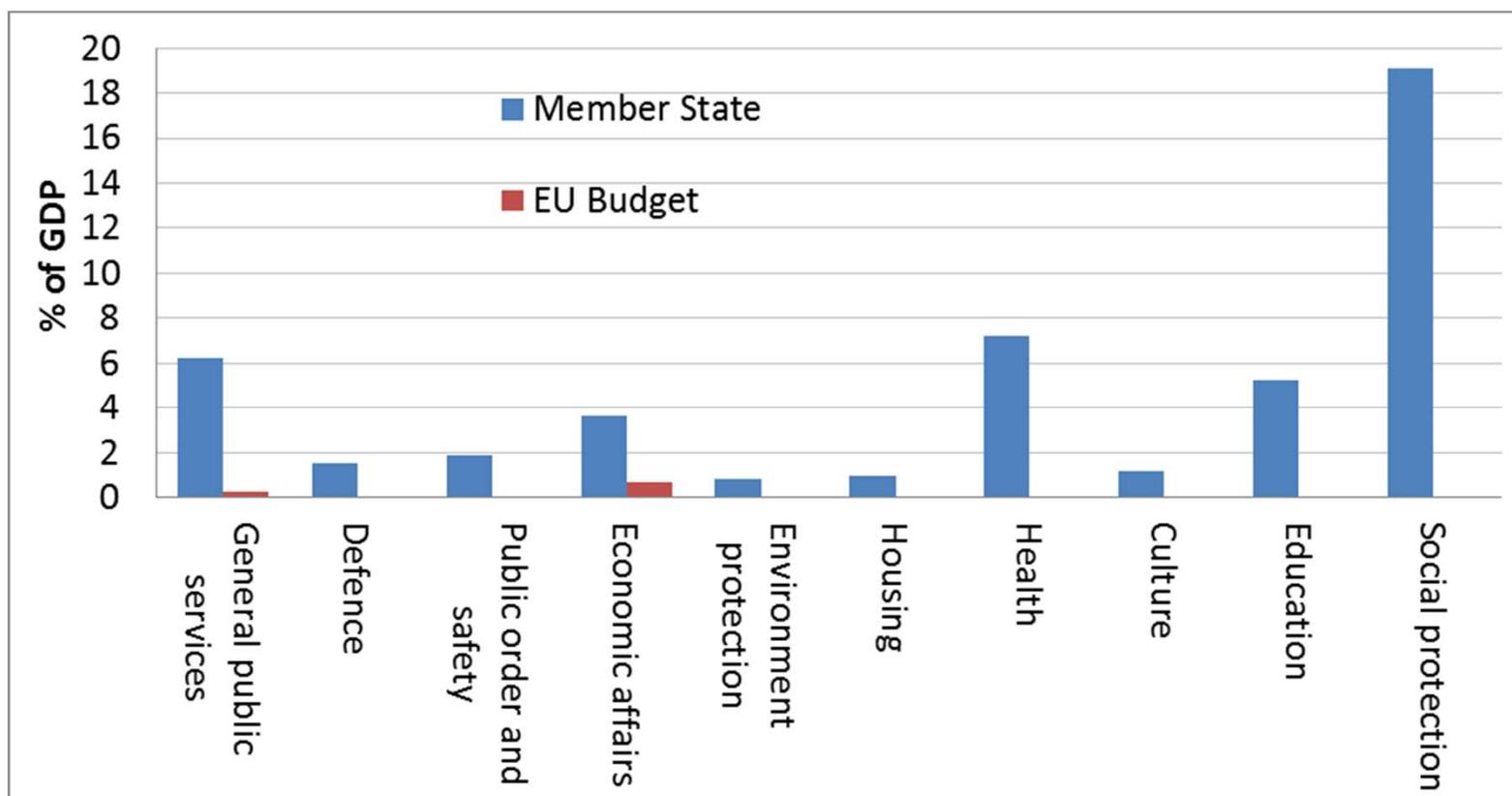
US Government expenditure at the Central and State/Local level

by COFOG classification, % of GDP, 2012

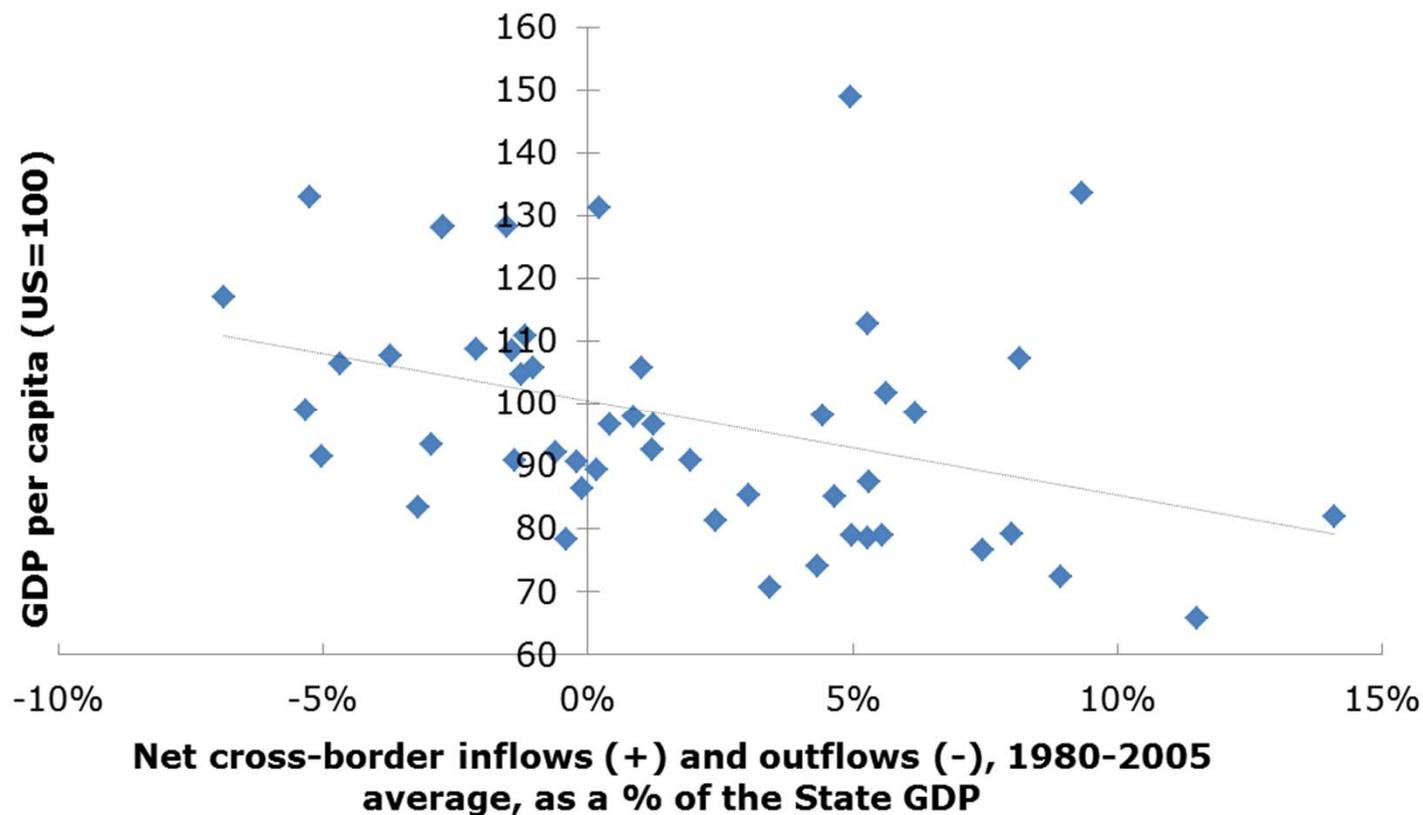


EU and National expenditure

by COFOG classification (author's rough estimate for the EU), % of GDP, 2007-13 average



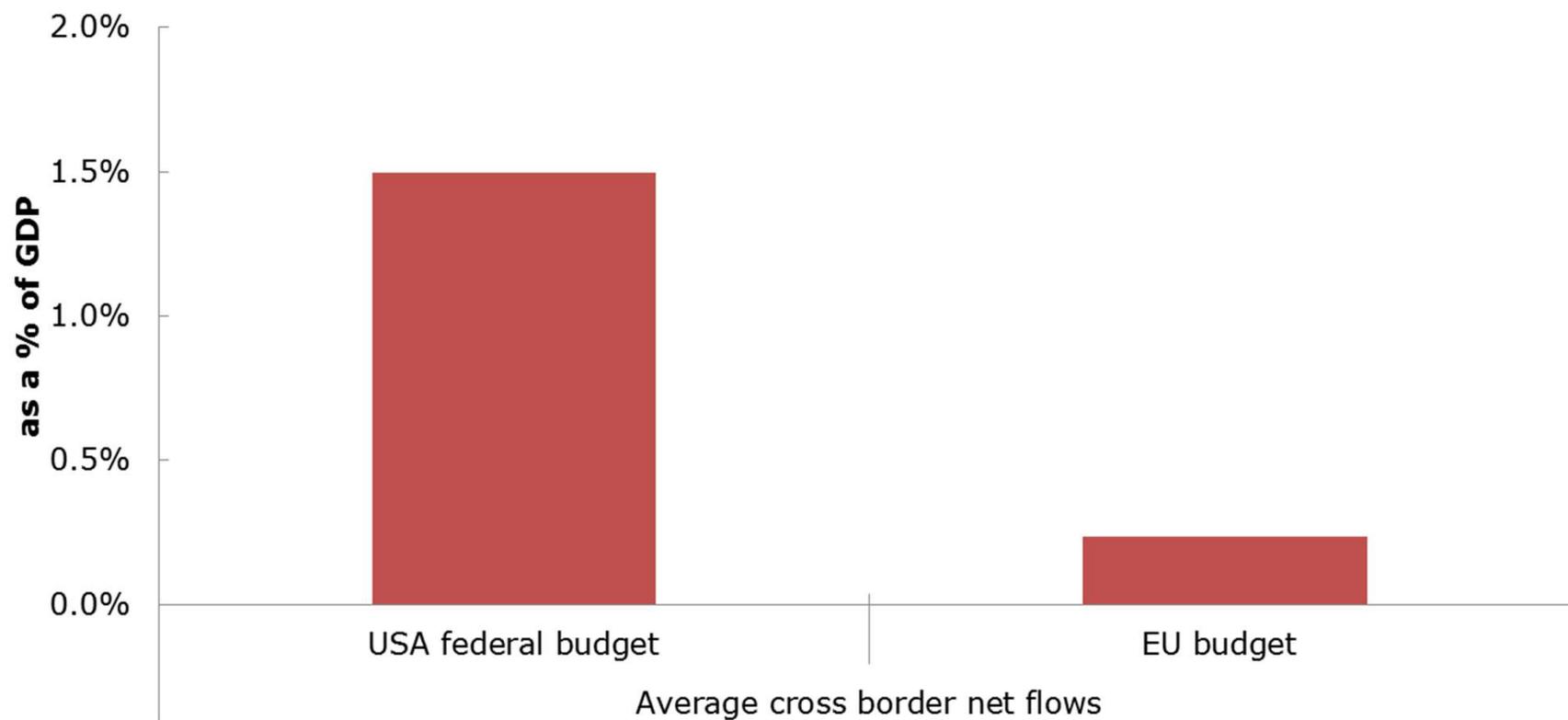
GDP per capita by State (US=100) and US federal net transfers



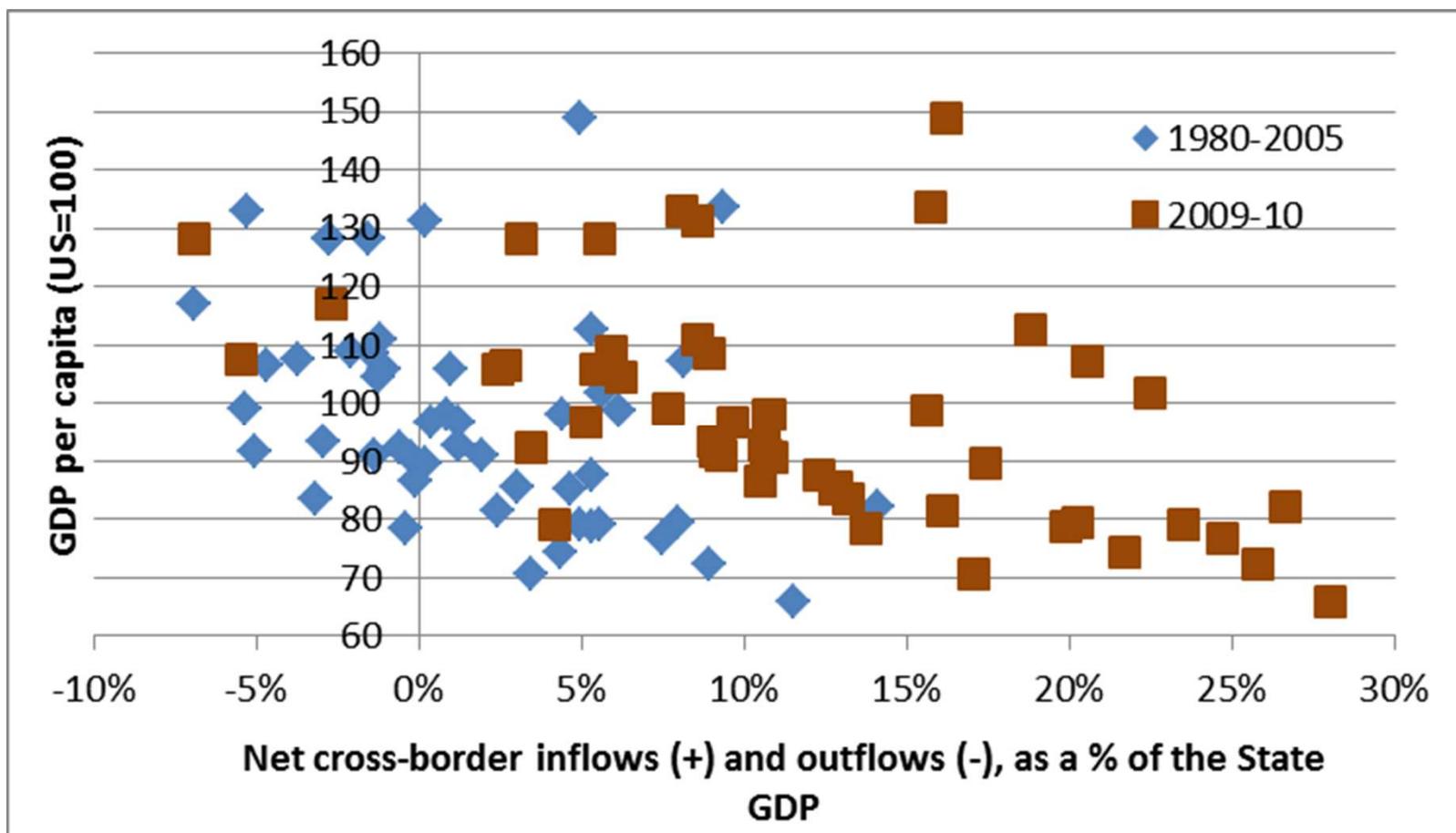


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Average yearly cross-border flows operated through the EU and the US budget, in normal times



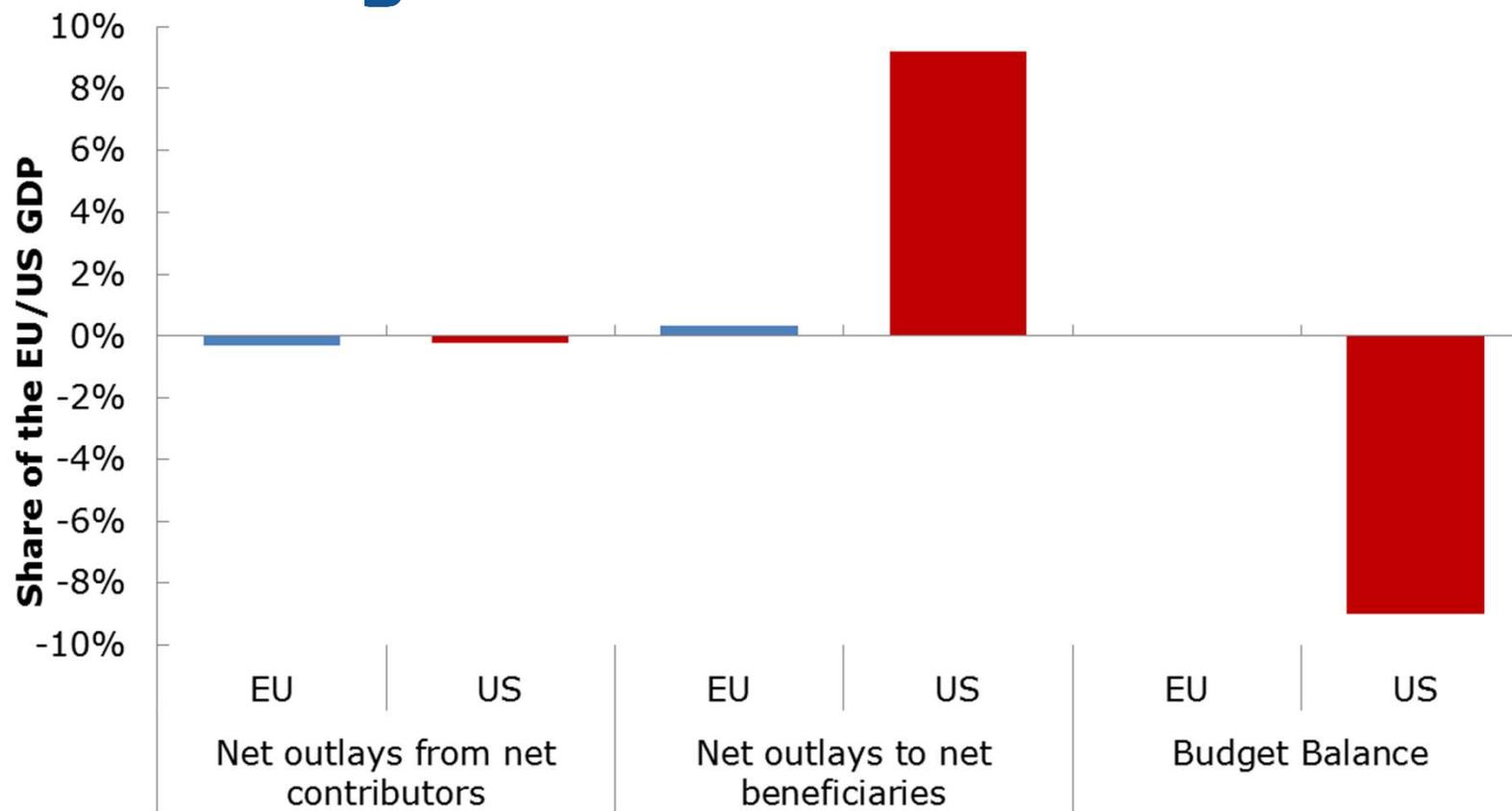
GDP per capita by State (US=100) and US federal net transfers





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Average yearly cross-border flows operated through the EU and the US budget in 2009-2010





Conclusions

- *Although limited in size, the EU budget effectively supports development in catching-up regions, this is a great (yet often-neglected) EU achievement*
- *Cross-border flows for the EU as a whole amount to 0,25% of the EU GDP*
- *Benchmarks: half of ODA, one sixth of US in normal times*
- *US cross-border flows largely stem from the broader scope and larger size of the EU budget. At the margin the EU budget has a higher redistributive power.*





Conclusions

- *In the US, the existence of a direct fiscal relationship between the citizen and the federal layer of government plays an important role, not least from a political economy perspective*
- *In bad times, US cross-border flows are not financed by net payers but by federal borrowing. EU net payers paid more than US net payers in 2009-10!*
- *The counterfactual matters. It is not a zero-sum game. Being a net contributor/beneficiary for 5% of your income does not necessarily make you 5% poorer/richer.*





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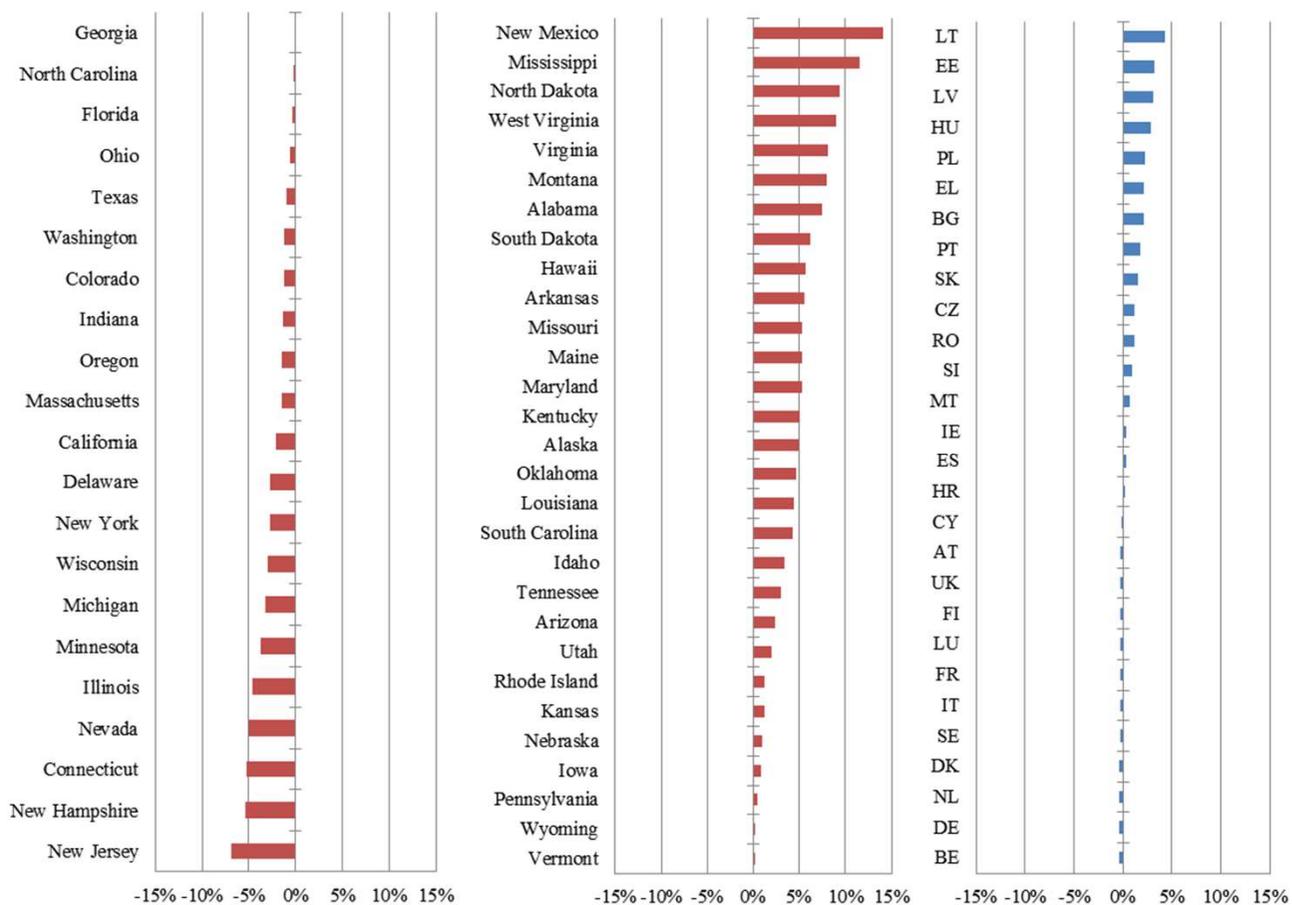
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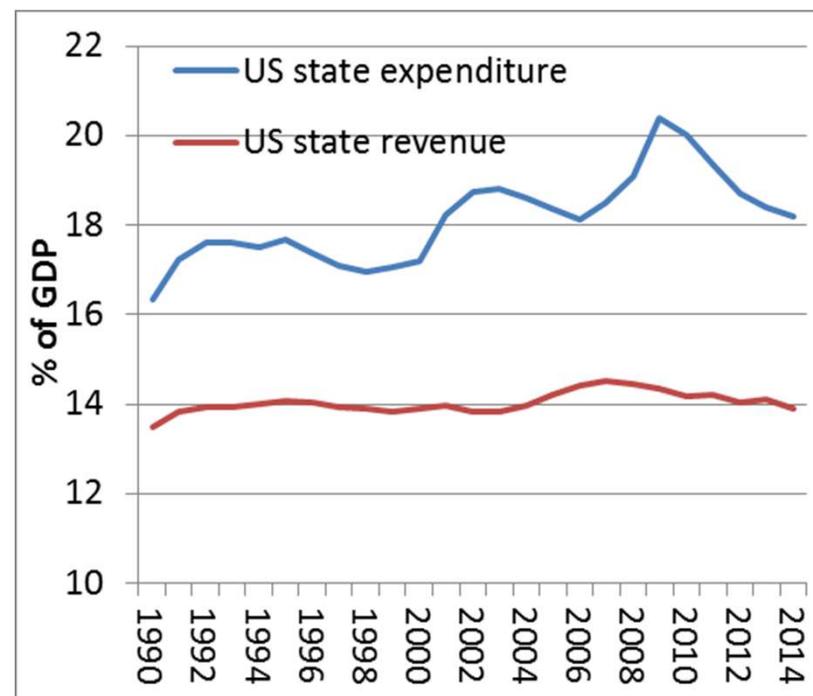
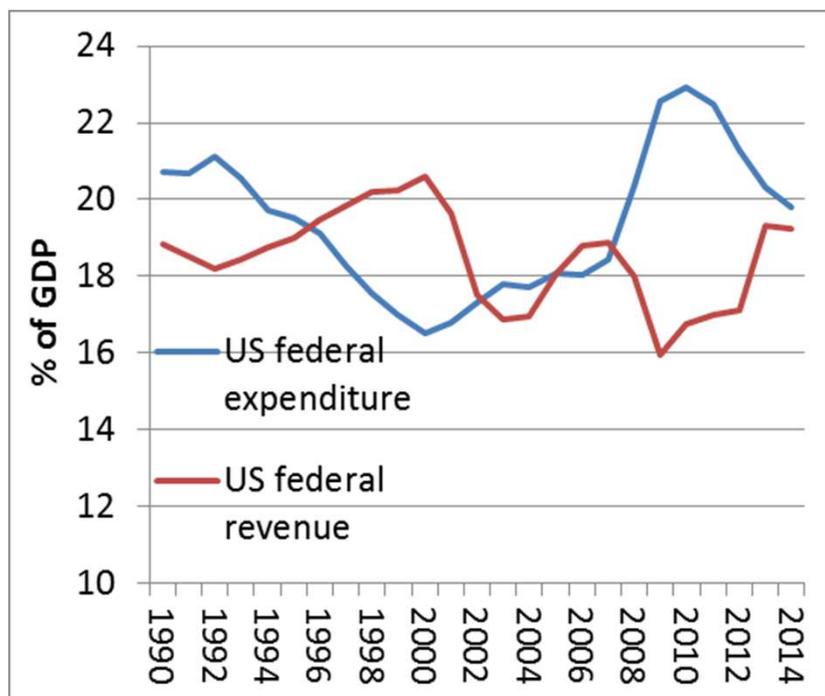


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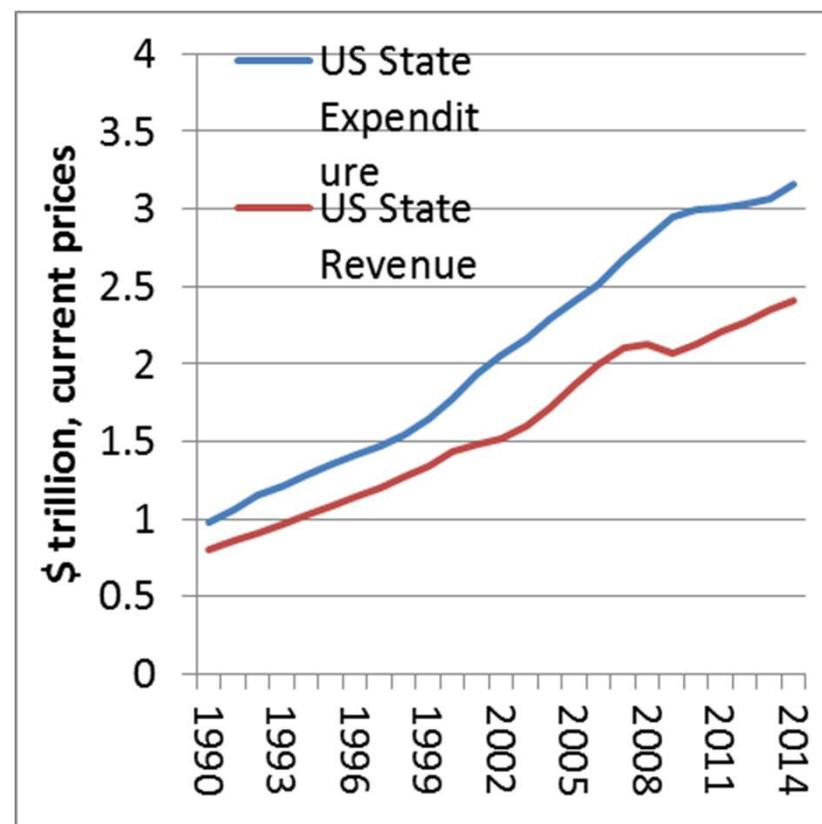
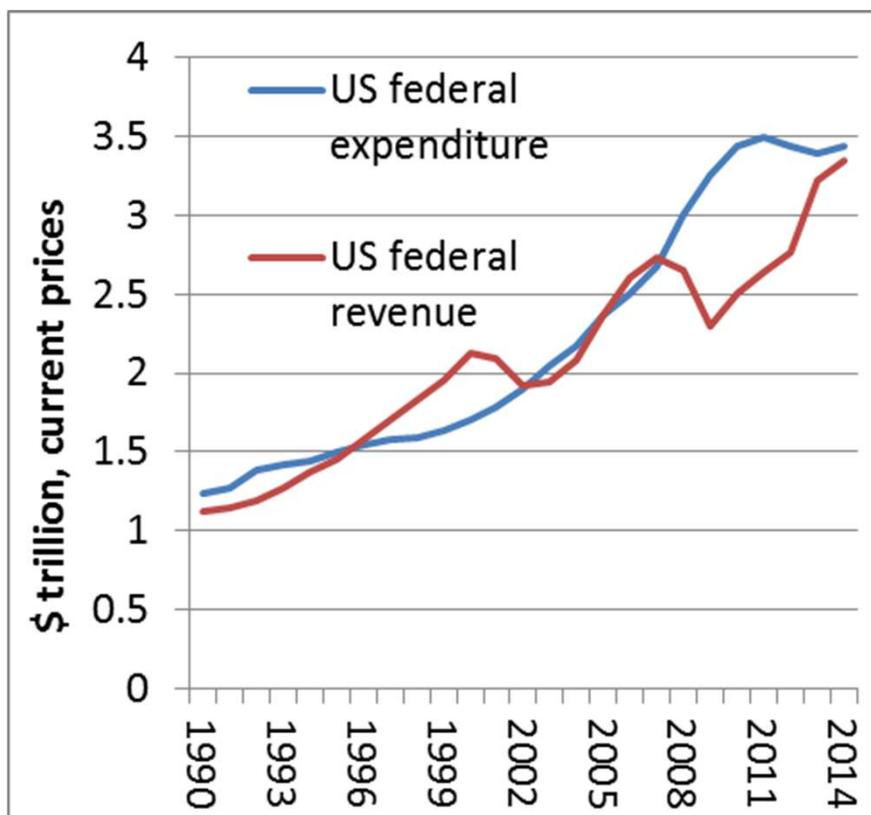
Yearly net transfers to and from the US federal budget (1980-2005 average) and the EU budget (2007-2013 average), as a % of GDP of EU Member States



US federal rev. and exp., % of GDP



US State rev. and exp., current \$





ARRA: \$ 831 billion between 2009 and 2019



Redistribution Vs Risk Sharing

Table 1. Empirical Estimates of Redistribution and Risk-sharing from Previous Studies

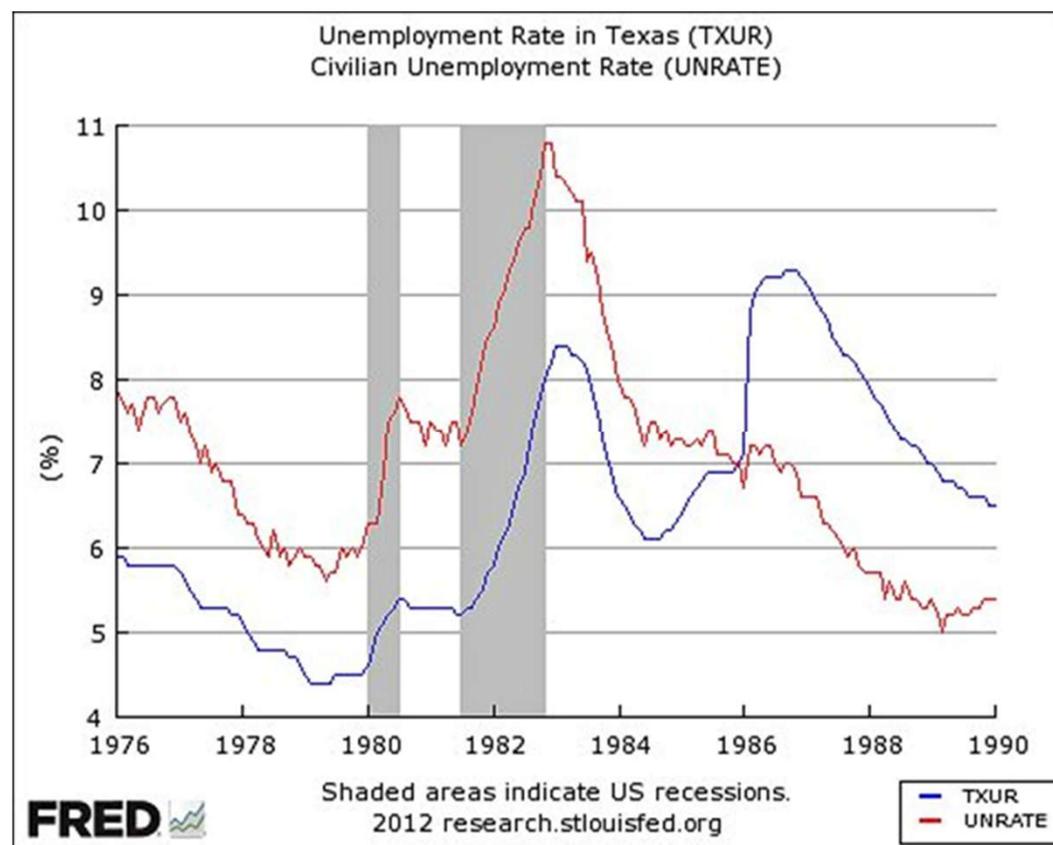
Study	Country	Sample period	Federal fiscal flows	
			Redistribution	Risk-sharing
Sachs and Sala-i-Martin (1992)	USA	1970-80	33--40	
Masson and Taylor (1993)	Canada	1965-88	13	
Andersson (2004)	Sweden	1983-2001	7--22	
von Hagen (1992)	USA	1981-86	47	10
Goodhart and Smith (1993)	Canada	1966-88	15	17
	UK	1984-87	21	21
	USA	1982-86	13	11
Bayoumi and Mason (1995)	Canada	1969-86	39	31
	USA	1969-86	22	17
Decressin (2002)	Italy	1970-95	25--35	10--15
Melitz and Zumer (2002)	Canada	1965-88	16	10--15
	France	1973-89	38	20
	UK	1971-93	26	20
	USA	1977-92	16	20
Obstfeld and Peri (1998)	Canada	1971-95	53	13
	Italy	1979-93	8	3
	USA	1969-85	19	10



Cottarelli C. et al. (2016)

- *The impact of fiscal transfers on risk-sharing is there but modest, ranging between 4 percent in Australia and Canada and 11 percent in the U.S.*
- *The impact of fiscal transfers on stabilization is larger: U.S. (16 percent), Canada (14 percent), and Australia (23 percent).*
- *Net fiscal transfers also have a sizeable impact on redistribution, ranging between 13 percent in the U.S. and 24 percent in Australia.*
- *Overall, the analysis of individual components of net fiscal transfers suggests that:*
 - **Transfers to state budgets play a limited role**
 - **The significant impact of net transfers mostly comes from gross transfers to individuals and federal taxes**

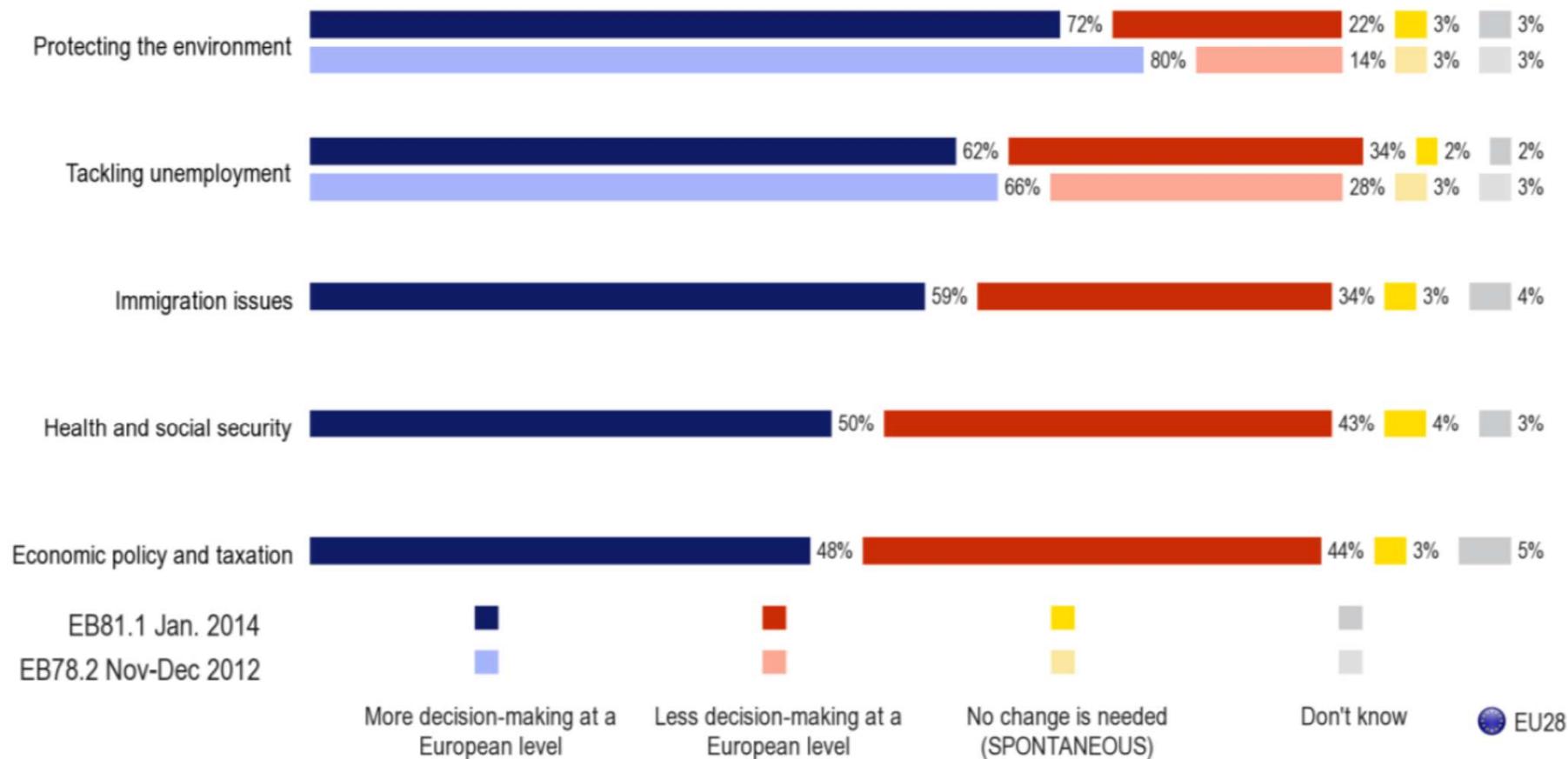
Unemployment in Texas after the savings and loan crisis of 1987





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QA5. For each of the following areas, please tell me if you believe that more or less decision-making should take place at a European level.



Special Eurobarometer 2014





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QE3T. And on which of the following would you like EU budget to be spent? Firstly? Any others?



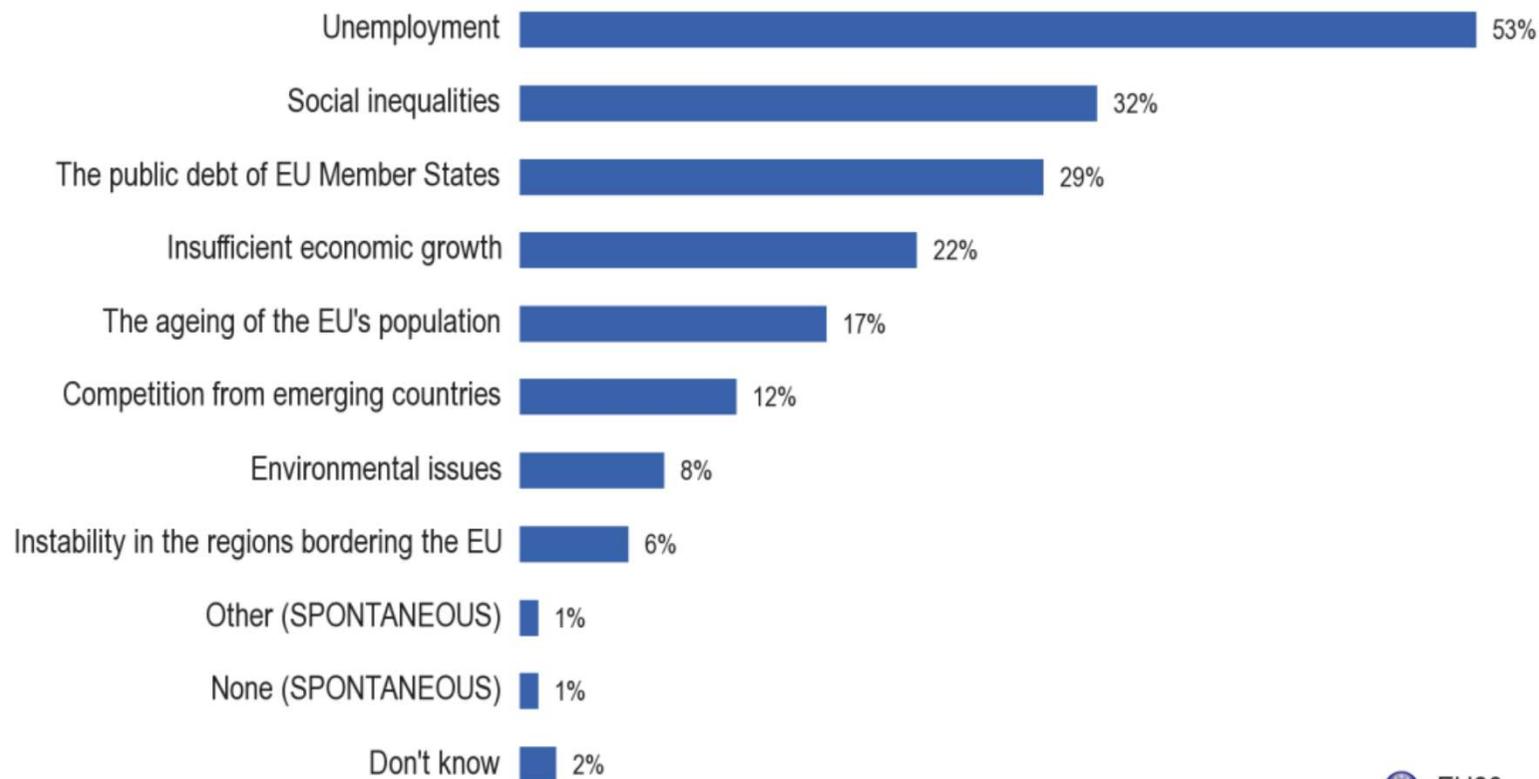
■ EB83 Sp.2015
■ EB75 Sp.2011

● EU28

Maximum four answers



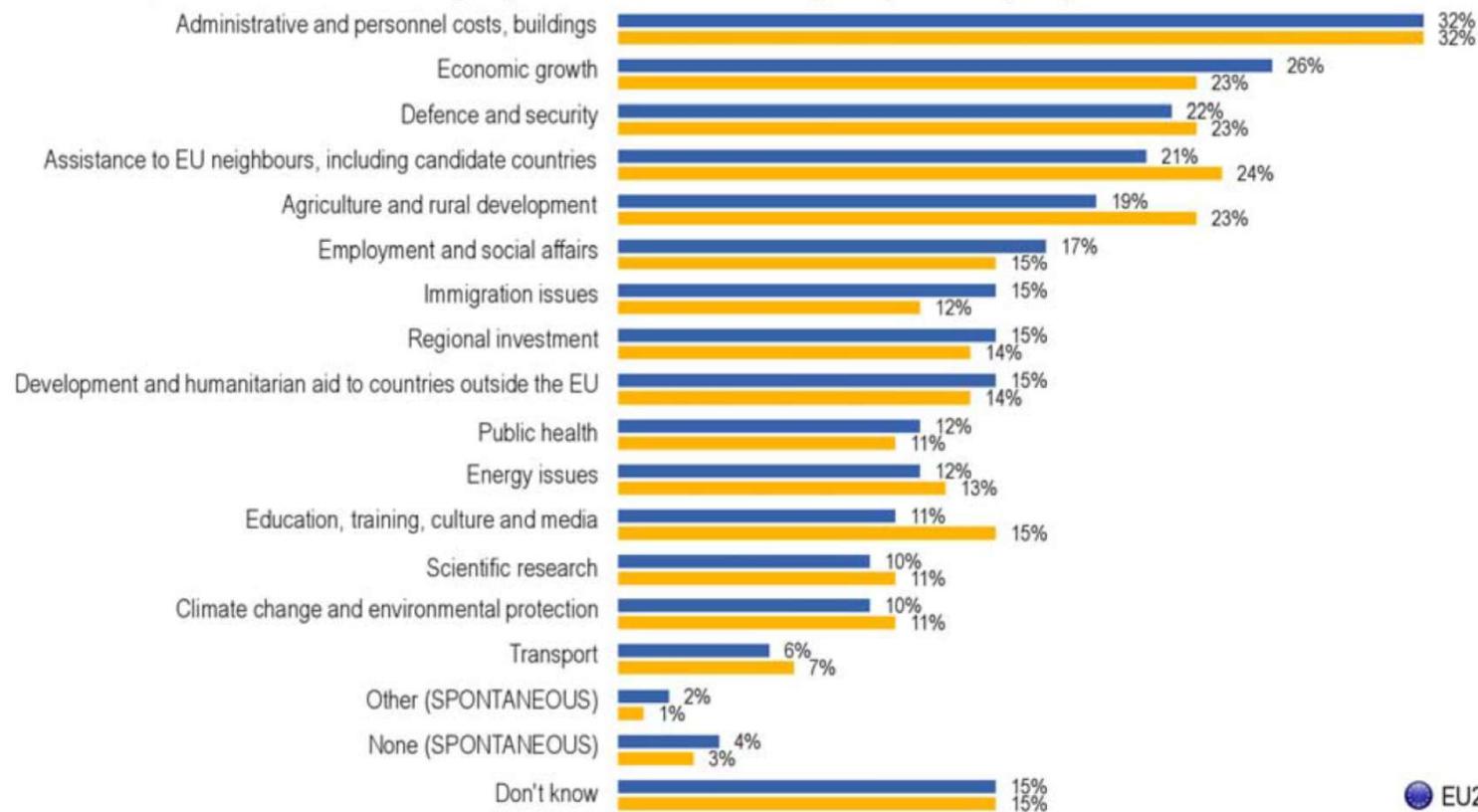
QA3. And which of the following do you think are the two main challenges for the EU?





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QE2T. On which of the following do you think most of the EU budget is spent? Firstly? Any others?



■ EB83 Sp.2015
■ EB75 Sp.2011

● EU28

Maximum four answers

