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Collectively financing the ambitions of the European Union

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Introduction

The European Union (EU) has developed into one of the most ambitious political and economic projects in modern history. With its 27 member states, the Union is not only a common market but also a political actor with growing influence on the global stage.

However, such ambitions come at a cost. The EU requires substantial financial resources to realise its policies, programmes, and strategies. This applies to traditional areas such as agricultural subsidies and regional development, but increasingly also to new and urgent priorities such as climate action, digitalisation, security and defence cooperation, migration management, and international partnerships.

At the heart of this issue lies the question of *collective financing*: how can the EU secure and manage the money it needs to act effectively, while ensuring fairness among member states?

The EU budget is financed primarily by contributions from member states, customs duties, and a share of value-added tax (VAT). In recent years, however, these sources have proven insufficient to meet the Union's growing ambitions.

For example, the COVID-19 pandemic forced the EU to create unprecedented instruments such as the *NextGenerationEU* recovery fund, which relies heavily on borrowing and debt shared at the European level. Similarly, the Russian invasion of Ukraine has underlined the need for massive investments in defence, energy independence, and humanitarian support-challenges that no single member state can shoulder alone.

Financing EU policies is not only a technical question of money but also a deeply political one. It touches upon sensitive issues of sovereignty, solidarity, and legitimacy.

Wealthier states often express concerns about becoming permanent "net contributors," while less wealthy members stress the importance of financial solidarity to achieve convergence and cohesion.

At the same time, there is debate about whether the EU should be allowed to raise its own resources, such as new taxes on digital companies, carbon emissions, or financial transactions, rather than relying primarily on national contributions.

The debate over collective financing therefore reflects the broader identity of the European Union: is it merely an economic community, or is it evolving into a political union that requires deeper fiscal integration? Finding solutions to this question is crucial for the EU's future. Without a sustainable and fair financing system, the Union risks falling short of its promises and weakening its role in an increasingly competitive and unstable world.

Definition of key terms

Cohesion policy

The EUs strategy to reduce economic, social, and territorial disparities between regions by providing funding for development, infrastructure, and innovation.

Common Agricultural Policy (CAP)

One of the EUs oldest and largest budgetary programmes, designed to support farmers, ensure food security, and stabilise agricultural markets.

EU budget

The financial plan of the European Union, usually covering a seven- year period (the Multiannual Financial Framework), which sets limits on spending in different policy areas.

EU own resources

Revenues collected directly for the EU, such as custom duties, a share of VAT, or newly proposed instruments like a carbon border adjustment mechanism.

Fiscal sovereignty

The right of a state to control its own taxation and public spending. This is often cited by member states when they resist greater EU authority over taxation or debt.

Multiannual Financial Framework (MFF)

The Eus long- term budget plan, which sets ceilings for expenditure across several years and ensures predictability for programmes and policies.

NextGenerationEU

A temporary recovery instrument established in the year 2020, worth 750 billion euro, financed by collective borrowing on financial markets to support member states in recovering from the COVID-19 crisis.

Net contributor / Net beneficiary

Terms describing member states that either pay more into the EU budget than they receive (net contributors) or receive more than they pay in (net beneficiaries)

Own resource reform

Ongoing discussions about granting the EU new sources of direct revenue, such as digital taxes or carbon taxes, to reduce dependence or national contributions

Solidarity principle

A fundamental principle of the EU that ensures member states support one another financially and politically, particularly in time of crisis.

General Overview

The financing of the European Union has always been a delicate and contested issue. Since its foundation, the EU has relied on a system of shared contributions, but the balance between solidarity and national sovereignty has remained a point of friction. Traditionally, the EU budget has been relatively modest compared to national budgets, around 1% of the EU's total Gross National Income (GNI). Despite its limited size, the budget has played a central role in shaping European integration through programmes such as the Common Agricultural Policy and cohesion funding.

Over time, however, the EU has taken on far greater responsibilities. The climate crisis requires billions of euros in investments to achieve the Green Deal's target of making Europe climate-neutral by 2050. The digital transformation demands large-scale infrastructure projects and research funding to ensure the EU remains competitive with the United States and China. Migration pressures and external security challenges, particularly after Russia's invasion of Ukraine, have underlined the need for joint investments in border control, humanitarian aid, and defence capabilities.

The COVID-19 pandemic marked a turning point. For the first time, the EU collectively borrowed money on financial markets to finance the *NextGenerationEU* recovery fund. This created a precedent for shared debt and raised questions about the long-term future of EU financing. Some see this as a historic step toward fiscal union, while others warn against "mutualising" debt, which could reduce fiscal discipline in individual member states.

The debate is further complicated by tensions between wealthier and less wealthy member states. Northern European countries such as the Netherlands, Sweden, and Germany have often resisted increases in the EU budget, preferring strict limits on spending. Meanwhile, Southern and Eastern European states emphasise the importance of financial solidarity to close development gaps and ensure that all members benefit from integration. The *frugal states* argue for efficiency and fiscal discipline, while the *cohesion states* push for greater redistribution.

A potential solution lies in reforming the EU's system of own resources. Proposals include introducing a carbon border tax, taxing digital services, or establishing a financial transaction tax. Such measures would give the EU greater autonomy in financing its policies, reduce dependence on national contributions, and provide incentives aligned with broader policy goals. However, they also raise political concerns, as taxation is traditionally a core element of national sovereignty.

Ultimately, the financing of the EU reflects a deeper debate about its identity and future trajectory. If the Union wishes to be a global leader in climate policy, defence, innovation, and social cohesion, it must also develop a sustainable and fair system of collective financing. Without this, its ambitions may remain limited by the reluctance of member states to commit sufficient resources. The future of the EU as both an economic and political union may therefore depend on how this financial question is resolved in the coming years.

Major parties involved

Germany

Germany is the EU's financial powerhouse, consistently being the biggest contributor to the EU budget. This funding helps tackle everything from climate change to digital projects, regional growth, and security concerns. While Germany is known for being strict with money, they showed they could adapt when needed - just look at how they backed the unprecedented NextGenerationEU program during COVID. Beyond just writing checks, Germany's voice carries serious weight in discussions about how the EU should handle its collective wallet.

France

France brings its own flavor to EU finances, both as a major funder and as a vocal champion for European independence and unity. They're passionate about protecting farming through the Common Agricultural Policy, building up European defense, and making sure Europe can stand on its own feet technologically. When it comes to big financial decisions, France often teams up with Germany to broker deals, and nothing major moves forward without Paris having its say.

Italy

Italy's relationship with EU money is complex - they put in a lot but also rely heavily on EU support. Their ongoing struggles with slow growth and massive public debt make EU funding crucial. The COVID recovery package was a perfect example, with Italy receiving one of the biggest chunks of aid. They're always pushing for more flexible spending rules and continued investment, trying to find that sweet spot between responsible finances and growth-boosting spending.

Spain

Spain has really stepped up as a key voice in EU financial matters. Like Italy, they both contribute and benefit significantly, especially from development funds and recovery programs. They've used EU money smartly - going green, boosting renewable energy, and updating their job market. Spain tends to side with other southern European countries, arguing that pooling resources during tough times makes the EU stronger and more unified.

Timeline of events

1951-1957:	It all began with the European Coal and Steel Community in 1951, followed by the Treaty of Rome in 1957. Back then, funding was pretty basic - member states just pitched in what they could.
1988:	Jacques Delors shook things up by introducing long-term budget planning (the MFF) and really pushed regional development. The idea was simple: help poorer areas catch up through targeted funding..
2004:	When ten new countries (mostly from Eastern Europe) joined, it changed the whole funding game. The EU had to seriously boost its regional and farming support to help these newcomers integrate.
2008-2010:	The financial crisis showed what the EU could (and couldn't) do with its limited budget. They had to get creative, setting up emergency funds like the EFSF and ESM to handle the fallout.
2020:	Covid Changes the Game - for the first time, the EU borrowed €750 billion as a group to fund recovery. It was temporary, but it showed what was possible when everyone worked together.
2022:	Russia's invasion of Ukraine forced quick financial shifts toward energy independence, defense, and refugee support. The EU used joint borrowing to help fund these urgent needs.

Possible solutions

Strengthening Own Resources

One of the most sustainable solutions for EU financing is to expand and diversify the Union's system of "own resources." Rather than relying mostly on national contributions, the EU could tap directly into revenue streams generated by Union-wide policies. For instance, designating a portion of revenues from the Emissions Trading System (ETS) and the Carbon Border Adjustment Mechanism (CBAM) would create a solid connection between climate policy and financing.

Introducing a digital services tax or a modest financial transaction tax

This would ensure that global corporations and financial markets contribute equitably to the collective endeavor. This strategy would enhance fiscal autonomy and alleviate tensions between net contributors and net beneficiaries.

Making Collective Borrowing Sustainable. The success of NextGenerationEU showed that joint EU borrowing can mobilize significant resources quickly and cost-effectively. Converting this temporary measure into a permanent fiscal instrument would provide the Union with a reliable tool for financing large-scale projects, from climate neutrality to digital infrastructure.

Enhancing Fairness and Solidarity

For collective financing to remain politically feasible, it must be seen as equitable by all member states. This requires balancing the contributions of wealthier economies with the developmental needs of less prosperous regions. Cohesion funds should continue to focus on the areas most in need, but should also be linked to structural reforms that enhance governance and competitiveness. Concurrently, conditionality mechanisms — tying funding to adherence to the rule of law — ensure that solidarity is not compromised by democratic backsliding. By bolstering fairness and accountability, the EU can sustain the trust that supports collective investment.

Increasing Budget Size and Flexibility

Currently, the EU budget constitutes approximately 1% of the Union's gross national income, which is disproportionately small relative to its ambitions. Gradually raising the budget ceiling towards 2% would provide the EU with greater capacity to fund shared priorities without jeopardizing national spending. Additionally, introducing flexible instruments within the Multiannual Financial Framework would enable the Union to respond more effectively to crises, whether health, energy, or security-related. Streamlining spending rules and lowering bureaucratic barriers would ensure that allocated funds are utilized more efficiently, maximizing impact.

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