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FINANCIAL AUTONOMY OF THE EUROPEAN UNION AFTER ENLARGEMENT

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Abstract

One of the most important and current problems in the European Union (EU) public finance concerns its system of own resources. Almost all economists involved in the subject agree that the present system needs a comprehensive reform, as it does efficiently allows to deal with the new reality of the enlarged European Union. However, there is quite a divergence on how to do the reform, the problem lying in its range and directions. In general some economists postulate to extend the EU tax base by the creation of one or more new EU taxes whereas others opt for simplifying the system by replacing traditional and VAT resources with the so called ”fourth resource”. These differences mainly result from dissimilar approaches of economists to the criterion of financial autonomy.

The main aim of this paper is to evaluate the present system of EU own resources and the proposals of its reform owing to the criterion of financial autonomy.

Keywords: EU budget, own resources, financial autonomy

JEL Classification: H77, H71, F36

1. A CONCEPT OF FINANCIAL AUTONOMY

In our opinion, meeting a rule of financial autonomy by the European Union should be the base of its adequate functioning, as financial independence would guarantee more political force to the European Union, letting it execute sovereign policy and take free decisions in clearly supranational matters.

European Union would be characterized by financial independence if it really possessed its own resources. But the meaning of own resources is ambiguous as it has not been clearly defined so far. The problem is touched by the EU Treaty and the EU Council. It only stems from the EU Treaty[1] that the EU general budget should be reinforced by the own resources entirely but the Treaty does not indicate the kind of these resources. These resources are indicated by the EU Council. It introduces that the own resources are the so called "traditional" ones (agriculture duties and sugar levies, customs duties), the VAT resource and so called fourth resource (Member States direct payments from their national budgets, according to their GDP levels)[2].

Unfortunately, the concept of the EU own resources seems not to be a subject of particular interesting in the EU public finance literature. No-one but the Commission adds that the EU own resources may be defined as tax revenue allocated once and for all to the EU and accruing to it automatically without the need for any subsequent decision by the national authorities[3]. However most of the authors echo the "list" definition of the Council[4].

In our opinion, a precise definition of own resources is extremely important, because it would gives EU a chance for selection of proper revenue. Let us start to point the features that, according to some economists, should be possessed by a commune own resources: (i) resources are from the territory of the commune; (ii) revenue from these resources reinforces entirely the commune budget; and (iii)revenue is without time-limit.

There is some degree of similarity between the EU and a commune regarding the rules of establishing their revenue. In the case of the commune, the state decides about its revenue,

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[1] Treaty on European Union, art. 201.
[2] Council Decision of 29 September 2000 on the system of the European Communities' own resources, Official Journal, No L 253, art. 2.
[3] The Community Budget: The Facts in Figures, European Communities, Luxembourg 2002, p. 16.
[4] A. M. El-Agraa, Economics of the European Community, Philip Allan, New York 1999, p. 228.
[6] I. Begg, N. Grimwade, Paying for Europe, Sheffield Academic Press, Sheffield 1998, p. 45-48.

often equipping it with general subventions (something that might be considered as questionable from the point of view of financial autonomy. In the case of the EU, own resources are established by the Council, composed by Member States' representatives, in accordance with the rule of unanimity. Simultaneously it stems from the present system of EU own resources that Member States prefer to finance EU from their national budgets. Thus the fourth resource may be perceived as a kind of subvention.

The above mentioned similarity between EU and a commune calls for the fulfillment of the same features in the case of EU. However, we think that, in the case of the EU, the real own resources should also meet one more feature, at last partially: they should come directly from EU citizens and companies and not from Member States' national budgets. Meeting that criterion would limit the Member States' influence on the EU decisions concerning its own resources system.

Taking these characteristics into consideration, we suggest that the concept of EU own resources should be defined as "taxes, customs duties, levies and other payments that come directly from EU citizens and companies, reinforce the EU budget entirely and without time-limit, and accrue to it automatically, without the need for any subsequent decision by national authorities".

2. Present system of EU own resources and financial autonomy

The present system of the EU own resources consists mainly of the two so-called traditional resources (i.e. agricultural customs and sugar fees, customs duties), the VAT resource and the fourth resource.

Agricultural customs are levied on agricultural products imported by the EU from countries whose prices are lower than the EU ones. The common prices are set by a decision of the Council, in consultation with the Commission and the Parliament and, as a rule, they are higher than world prices. In the EU's opinion, the world prices on agricultural products are generally lower because of the subsidies that most countries apply. Thus, agricultural customs are supposed to -at least- equal the prices of imported goods with the EU ones and thereby secure the EU agricultural market.

Sugar levies are imposed on producers of sugar and derivative products like isoglucose and inulin. Generally, there are three kinds of such levies: a production levy, a storing levy and others. All these levies are purposeful, which means that the money collected is spent back on the sugar market.

Customs duties are established in respect of trade with non-member countries under the so called Common Customs Tariff and the Treaty establishing the European Coal and Steel Community. The main purpose of these duties is similar to the one of the agricultural ones, as they aim at the equalization of the EU prices with the world prices and the protection of the EU market. Customs duties may be divided into: contracted duties, autonomous duties, antidumping duties and antisubventional duties.

Contracted duties result from the agreement between the EU and the World Trade Organization (WTO) whereas autonomous ones do not result from this agreement and are established through independent decisions of the EU. Antisubventional duties are levied on imported products whose prices are lower than the EU ones as a result of national subsidies. Antidumping duties are imposed on imported goods whose lower prices result from their selling below the production cost.

The Member States are obliged to collect and transfer revenue from traditional resources to the general budget. Simultaneously, they can keep 25% of the revenue in order to cover the collecting costs.

Each Member State is obliged to transfer a part of its revenue from VAT to the general budget. This tax presently occurs in each Member State's tax system and is harmonized, which means that the construction of VAT in each Member State is almost the same. Only tax rates still remain an exception.

It must be stressed that the rules defining tax burden in aid of the general budget are completely different from the ones defining tax burden of the Member States' budgets. With regard to the first rules, each Member State is obliged to define a separate tax base and employ a uniform tax rate. The tax base is established by means of the so-called "revenue method". The VAT base equals a quotient of national VAT revenue by the national average VAT rate. An additional assumption is taken that the tax base for each Member State cannot exceed 50% of its GDP.

A uniform tax rate equals the remainder of a maximum rate and so-called "frozen" rate. A maximum rate presently amounts to 0,50%, however "the frozen" one equals a quotient of the so-called "compensation" (correction) for Great Britain by the sum of all Member States' VAT bases.

Great Britain receives compensation from other Member States in order to cover budgetary imbalances resulting from a huge payment predomination over the money it receives. A compensation for Great Britain is paid in the form of its VAT due reduction. Additionally, Great Britain is excluded from paying the correction. The other Member States finance this compensation in proportion to their shares in the EU's GDP, with exceptional for Austria, Germany, Holland and Sweden, which pay only 0,25% of the original amount.

The fourth resource results from direct payments made by the Member States from their national budgets. It is supposed to balance the general budget ex ante, so it is introduced when the revenue from the first three resources is inefficient to cover expenditure. The base for defining the amount of the fourth resource is the remainder of the approved expenditure and the predicted revenue from the three resources. That remainder is covered by the Member States' direct payments according to an uniform rate in proportion to their shares in the EU's GDP.

The European Union derive additional revenue from other resources, such as: taxes and premiums levied on salaries of the EU's employees, interests from outstanding amount dues, budgetary surpluses, income from activity of some EU's institution etc. However, revenue from these resources is irregular and less efficient in fiscal terms.

Taking the present system of EU own resources and the rule of financial autonomy into consideration it must be stressed that only few EU revenue resources meet our criteria of real own resources. In fact, the only "real" own resources are the traditional ones: they are paid directly by EU citizens and companies; they reinforce EU budget entirely and without time-limit; they also do not need Member States' additional decisions. Conversely, the VAT resource and so called "fourth resource" cannot be perceived as real own resources: they come directly from the Member States' national budgets; they do not reinforce the EU budget entirely; in addition, in the case of the fourth resource, it is very difficult to find any direct connections between it and EU citizens and companies.

The problem of limited EU financial autonomy is increased by a very disadvantageous structure of the EU revenue (table 1) and a very complicated VAT resource construction.

Table 1. Own resources revenue in the years 1971-2003

Own resources	**Years**									
	1971		**1979**		**1988**		**1998**		**2003**	
	mln euro	**%**	**mln euro**	**%**	**mln euro**	**%**	**mln euro**	**%**	**mln euro**	**%**
Traditional own resources	713,8	30,6%	2 143,5	14,4%	2 605,8	6,2%	1 955,1	2,3%	1 462,4	1,6%
Customs duties	582,3	25,0%	5 189,1	34,8%	9 310,2	22,3%	12 155,6	14,4%	9 479,8	10,1%
VAT	-	-	4 737,7	31,8%	23 927,6	57,2%	33 118,0	39,2%	21 540,2	23,0%
Fourth resource	-	-	-	-	4 445,8	10,6%	35 020,5	41,4%	51 235,2	54,8%
Miscellaneous	1 033,2	44,4%	2 821,2	18,9%	1 554,0	3,7%	2 280,5	2,7%	9 836,1	10,5%
Total revenue	**2 329,3**	**100,0%**	**14 891,5**	**100,0%**	**41 843,4**	**100,0%**	**84 529,7**	**100,0%**	**93 553,7**	**100,0%**

Source: Own calculation based on: European Commission, The Community Budget: The Facts in Figures, European Commission, Luxembourg 2002, p. 42 and 43; General budget of the European Union for the financial year 2004, European Commission, Brussels- Luxembourg 2004, p. 24.

It stems from the table that presently the fourth resource is the most important source of revenue and the less efficient are the traditional resources. That structure is a result of two reasons. The first one concerns the WTO customs policy, which heads towards liberalization of the world trade by means of a gradual reduction of tariffs and other protectionist measures. The second one is political conformity of the Council in the 80s: in this period of time the EU public finance experienced important difficulties arising from a very expensive agricultural policy and the enlargement to new and less developed Members (Greece, Spain and Portugal); the result of the search for new sources of revenue was not to introduce a real new resource, as the Council just decided to reinforce the general budget by a system of direct payments from the national budgets of the Member States[6]. Table 1 shows how in a short period of time that kind of revenue became the most relevant one.

Taking the VAT resource into consideration, it must be stressed additionally that the construction of that resource is very complicated, what makes it little transparent for EU citizens and companies. Complexity of the VAT resource results mainly from the UK rebate and the payment reductions for other countries like Germany, Nederland, Sweden and Austria[7].

In our opinion, this situation of limited financial autonomy is not consistent to the challenges of development for the whole European Union. Member States' fiscal burdens seem to be unjust and some corrections should be introduced in order to charge Member States more fairly. The actual system is becoming more complicated and non-transparent and it puts it more difficult for Member States to agree onto compromises, as recent negotiations around the financial perspectives for the period 2007-2013 have largely shown. Member States seem to rather take care about their own interests than about European Union and its goals.

An EU limited financial autonomy is particularly a threat to enlarged European Union and is not conducive to its further development. From the new Member States' point of view the present system does not comply with the principles of solidarity and subsidiarity.

The first principle is broken because of at least two reasons: (i)new Member States are levied with relatively higher VAT burden than richer Member States; and (ii) new Member States pay compensations for Great Britain.

The rule of subsidiarity is also stretched as there are no direct connections between EU policy and the fourth resource. As a result of such system of own resources, Member States that pay the highest amount of money to the general budget have the biggest influence on the budget and its expenditure. Thus the role of the new Member States in the decision-making process seems to be very limited.

3. Reform directions of the own resources system

The results of the foregoing analysis demonstrate that the present system of own resources needs a relevant reform if the European Union wants to face effectively the enlargement and accomplish the Lisbon goals. The relevant literature provides two main lines of such reform[8]: the first one consists in simplifying the present system of own resources; and the second one considers widening fiscal bases of new resources.

[7] M. Cieślukowski, A rational system of the own resources for the European Communities, The Poznań University of Economics Review, Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań 2005, no 2, p. 8 and 9.

[8] Financing he European Union, Commission report on the operation of the own resources system, European Commission, COM (2004) 505, p. 45.

There are three possibilities of simplifying the present system of new resources. The first one consists in replacing traditional own resources with the fourth resource. Traditional own resources are constantly becoming less efficient as they lose their fiscal significance. That is why the project aims to return them to the Member States where is the final consumption of goods and services. The second one consists in simplifying the method of calculation of the VAT resource. Such simplification consists in departing from the British correction and introducing the uniform VAT rate for all Member States. At last, a final line of simplification refers to a complete replacement of both the traditional resource and the VAT resource by the fourth resource.

With regard to the latter, the less developed EU countries introduced a proposal of interregional progressiveness in the GDP resource regarding the ability-to-pay principle. They proposed to define a "national modulation coefficient" that reflects the relative position of each Member State's per capita income in comparison to the average income of the EU[9]. This coefficient rate would be applied to the GDP resource base calculated in the current way. The Member States whose per capita income is higher than the average EU one would pay more, whereas the countries with per capita income below the average EU one would pay less than under the current system. The example of the potential calculation of the GDP tax burden for a 1 % tax rate in comparison with the current GDP system in 2003 is shown in table 2.

The second direction of the reform postulates to introduce new own resources. Depending on their fiscal efficiency some of the resources could replace the whole present system and some of them could even reinforce the general budget with additional revenue. In the years 1998 - 2004, the Commission was discussing several proposals for a special European tax[10]: energy tax (environmental tax); a modulated VAT tax; excise taxes on tobacco, alcohol and mineral oil; European corporate income tax; communication taxes; personal income tax; withholding tax on interest income; European Central Bank's seignoriage.

[9] Buchholz-Will, W., Dahlström, G., Huffschmid, J. and others. (2002). Progressive Fiscal Policy in Europe, www.memo-europe.uni-bremen.de/…/Euromemo_2002_Chapter_1.PDF, p. 27 and 28.

[10] Financing he European Union, Commission report on the operation of the own resources system, European Commission, COM (2004) 505.

Table 2. Progressive and current GDP resource - calculation for a 1% tax rate in 2003 for 25 countries

Member Sate	GDP (bln euro)	Income per capita (EU=1)	Potential system		Current system	
			Modulated tax rate	Tax revenue (bln euro) (1*3/100)	Tax rate	Tax revenue (bln euro) (1*5/100)
	1	**2**	**3**	**4**	**5**	**6**
Belgium	265,80	1,06	1,06	2,82	1,00	2,66
Denmark	189,20	1,45	1,45	2,74	1,00	1,89
Germany	2136,00	1,07	1,07	22,86	1,00	21,36
Greece	153,00	0,58	0,58	0,89	1,00	1,53
Spain	741,20	0,75	0,75	5,56	1,00	7,41
France	1548,00	1,04	1,04	16,10	1,00	15,48
Ireland	133,40	1,39	1,39	1,85	1,00	1,33
Italy	1301,00	0,92	0,92	11,97	1,00	13,01
Luxembourg	23,10	2,11	2,11	0,49	1,00	0,23
Netherlands	452,90	1,15	1,15	5,21	1,00	4,53
Austria	223,20	1,14	1,14	2,54	1,00	2,23
Portugal	132,60	0,52	0,52	0,69	1,00	1,33
Finland	143,20	1,13	1,13	1,62	1,00	1,43
Sweden	265,50	1,22	1,22	3,24	1,00	2,66
UK	1573,00	1,08	1,08	16,99	1,00	15,73
Cyprus	12,03	0,69	0,69	0,08	1,00	0,12
Czech Republic	74,62	0,30	0,30	0,22	1,00	0,75
Estonia	7,40	0,23	0,23	0,02	1,00	0,07
Hungary	73,44	0,30	0,30	0,22	1,00	0,73
Latvia	8,77	0,16	0,16	0,01	1,00	0,09
Lithuania	15,52	0,19	0,19	0,03	1,00	0,16
Malta	4,19	0,44	0,44	0,02	1,00	0,04
Poland	183,50	0,20	0,20	0,37	1,00	1,84
Slovakia	28,68	0,22	0,22	0,06	1,00	0,29
Slovenia	24,51	0,51	0,51	0,13	1,00	0,25
EU 25	**9 715,00**	**1,00**	**1,00**	**97,15**	**1,00**	**97,14**

Source: Own calculation based on European Economy, 2003.

In the opinion of the Commission, the modulated VAT resource, the European corporate income tax and the energy tax have the biggest chance to become a new EU own resources. All of these hypotheses are generally in line with the main conclusions in the area of the fiscal federalism theory[11] in what concerns taxation, in particular with the criteria introduced by Musgrave (1983) in order to define what kind of taxes would be competence of the central powers. A modification of the VAT resource generally consists in improving it to be more visible and fairer for the European citizens and companies. It also aims to replace both the present VAT resource and the fourth resource. The project is to introduce additional a 1% rate on European companies turnover. It is also assumed that the new rate would not increase the VAT tax burden in Member States because the national rates would be suitably reduced. Finally, the tax would be imposed on harmonized base through declarations stating clearly on each invoice that it is the EU tax[12].

A European corporate tax would be levied only on European companies. The European company statute was defined in detail by the Council and would only concern international companies that meet adequate criteria. The main condition of a European corporate tax creation is to harmonize tax bases in what concerns Member States' corporate income tax. But it must be stressed that harmonization would only concern European companies tax bases. The tax base would be imposed with a uniform rate. It is assessed that the revenue from that resource would cover about 40% of EU expenditure.

As a new own resource, an energy tax is considered in two ways: as a broad-based energy tax (coal, gas, petrol, LPG etc.) and an energy tax on motor fuel used for land transport particularly. In both options, a European tax would need a definition of tax rates. Tax would be paid by the consumers via the energy suppliers. The amount of tax would be exposed on the bills. It is assessed that the revenue arising from those resources would be sufficient to cover all EU present needs.

The other proposals of new resources, although they seem to be fiscally efficient, have less chance to reinforce the general budget because there would be strong difficulties in order to reach a political agreement in their cases. Introducing these new resources would probably result in increasing the tax burden in each country and that is mainly why the Council is very cautious about introducing them.

[11] For a brief review, see for instance Oates (1999).

[12] P. Cattoir, Tax-based EU own resources: An assessment, European Commission Working Paper 2004, no 1, p.14.

In our opinion, a potential resource which discussion still to be worthy is a surcharge on personal income tax. In relevant literature some interesting proposals have been put for this tax. Probably both the most convincing (and similar) models were those proposed by Biehl (1990) and El-Agraa (1994)[13]. These models assume to introduce a uniform percentage surcharge on national personal income tax payments which would be shown on each tax declaration: this way, each taxpayer would know exactly its contribution to finance the European Communities expenditure.

El-Agraa (1994) presented a model of a progressive personal income tax which covered one-half of all EU expenditure with the additional assumption that the general budget equaled 2,5% of the European Communities GNP. We rebuilt this model under the present circumstances and the following assumptions: (i) year 2005; (ii) 25 Member States; (iii) budget size is 1,24% of the EU GDP; and (iv) the personal tax revenue should cover total EU expenditure in this year. The calculation of personal income tax rates for each Member State in 2005 is shown in table 3.

Rates of surcharge on national personal income tax for each Member State are presented in column 9 of the table. The rates show how much more individuals would have to pay in their income tax in relation to their countries' GDP if the general budget was financed only by the personal income tax. It can be seen that the rates vary from 0,16% in the case of Latvia to 2,03% for Luxembourg. Discussing tax would also change the structure of net payees and beneficiaries significantly. They are shown in column 10. Countries with the rates above 1 would be net payees and vice versa.

[13] D. Biehl, Financing the EEC budget, in: Public finance with several levels of government, Foundation Journal Public Finance 1990, p. 137-152; A. M. El-Agraa, The economics of the European Community, Heme Hempsted, Harvester Wheatsheaf 1994.

Table 3. A surcharge on personal income tax in 2005

Member State	y_c	$\frac{Y_c}{\sum Y_c} = y_c$	$y_c T = T_c$	k_c	$T_c k_c$	$\frac{T_c k}{\sum T_c k} = i_{nc}$	$i_c T = T_{nc}$	$\frac{T_{nc}}{Y_c} = t_c$	$\frac{T_{nc}}{T_c} = r_c$
	Mln euro	%	**Mln euro**		**Mln euro**	%	**Mln euro**	%	
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Belgium	283 800,00	2,70	2 671,24	1,0470	2 796,79	2,84	2 814,16	**0,99**	1,0535
Denmark	204 300,00	1,94	1 922,96	1,4500	2 788,29	2,84	2 805,60	**1,37**	1,4590
Germany	2 261 000,00	21,51	21 281,46	1,0500	22 345,53	22,73	22 484,31	**0,99**	1,0565
Greece	178 000,00	1,69	1 675,41	0,6200	1 038,75	1,06	1 045,20	**0,59**	0,6239
Spain	840 600,00	8,00	7 912,07	0,7800	6 171,42	6,28	6 209,74	**0,74**	0,7848
France	1 662 000,00	15,81	15 643,42	1,0300	16 112,73	16,39	16 212,79	**0,98**	1,0364
Ireland	153 800,00	1,46	1 447,63	1,4600	2 113,54	2,15	2 126,66	**1,38**	1,4691
Italy	1 407 000,00	13,39	13 243,26	0,9300	12 316,23	12,53	12 392,72	**0,88**	0,9358
Luxembourg	25 500,00	0,24	240,02	2,1400	513,64	0,52	516,83	**2,03**	2,1533
Netherlands	476 100,00	4,53	4 481,25	1,1200	5 019,00	5,11	5 050,17	**1,06**	1,1270
Austria	238 200,00	2,27	2 242,04	1,1300	2 533,50	2,58	2 549,23	**1,07**	1,1370
Portugal	143 400,00	1,36	1 349,74	0,5200	701,86	0,71	706,22	**0,49**	0,5232
Finland	154 400,00	1,47	1 453,28	1,1400	1 656,73	1,69	1 667,02	**1,08**	1,1471
Sweden	293 100,00	2,79	2 758,78	1,2500	3 448,47	3,51	3 469,89	**1,18**	1,2578
UK	1 702 000,00	16,20	16 019,92	1,0900	17 461,71	17,76	17 570,16	**1,03**	1,0968
Cyprus	13 980,00	0,13	131,59	0,7400	97,37	0,10	97,98	**0,70**	0,7446
Czech Republic	82 100,00	0,78	772,76	0,3100	239,56	0,24	241,04	**0,29**	0,3119
Estonia	9 000,00	0,09	84,71	0,2600	22,03	0,02	22,16	**0,25**	0,2616
Hungary	88 790,00	0,84	835,73	0,3400	284,15	0,29	285,91	**0,32**	0,3421
Latvia	10 200,00	0,10	96,01	0,1700	16,32	0,02	16,42	**0,16**	0,1711

Lithuania	18 290,00	0,17	172,15	0,2000	34,43	0,04	34,64	**0,19**	0,2012
Malta	4 415,00	0,04	41,56	0,4200	17,45	0,02	17,56	**0,40**	0,4226
Poland	199 700,00	1,90	1 879,66	0,2000	375,93	0,38	378,27	**0,19**	0,2012
Slovakia	32 290,00	0,31	303,93	0,2300	69,90	0,07	70,34	**0,22**	0,2314
Slovenia	27 430,00	0,26	258,18	0,5300	136,84	0,14	137,69	**0,50**	0,5333
EU 25	**10 509 395,00**	**100,00**	**98 922,73**	**1,0000**	**98 312,17**	100,00	**98 922,73**		**1,0000**

Source: Own calculation based on: EL-Agraa model; European Economy, 2003.

In this calculation the abbreviations mean as follows:

$Y = \Sigma Y_c$ – the EU GDP (mln euro),

Y_c – Member State's GDP (mln euro),

$T=\Sigma T_c$ – total tax yield which equals the total EU expenditure (mln euro),

T_c – a share of each Member State in total tax yield (mln euro),

k_c – a ratio between each Member State's per capita income (pci) and the EU average,

T_{nc} – a new share of each Member State in total tax yield (mln euro),

i_c – a new share of each Member State in total tax yield (%),

t_c – a rate of surcharge on national personal income tax (%),

r_c – a ratio between each country's tax rate and the EU average.

4. Final remarks

In this paper, we analyze the present system of own resources of the EU and the main proposals of reform concerning it, as it is generally agreed that probably the system will not be able to efficiently deal with the new challenges that the EU face, namely those imposed by the recent enlargement to 25 countries.

Assessing the main directions of the reforms it must be stressed that the first direction, i.e. heading towards simplifying the own resources system, would secure the system more transparency as a whole. However, it is difficult to find any connections with the rule of subsidiarity on which the European Communities base their activities. At last, replacing the VAT resource and traditional resources with the fourth resource does not guarantee the EC financial and political stability.

With regard to this point of view, the second direction of the reform, i.e. widening fiscal bases of new resources, seems to be most suitable for the future shape of the European Communities. New own resources should replace at least the fourth resource and thus secure the EC financial autonomy since financial independence is the basic condition of proper existence of any supranational socio-economic organization. In particular, the introduction of a surcharge on personal income tax seems to be a way of improving the transparency and the fairness of the system: note that this way of proceeding would give any European citizen the opportunity to would know exactly its contribution, and would reduce the contribution of poorer countries without reducing the financial resources of the EU.

There are also some shortcomings of such system and the biggest one is, probably, complexity. In order to improve the transparency of the system, first of all, additional corrections in the VAT resource ought to be made. Apart from its modulation, the EC should resign from connections between the VAT resource and the correction for Great Britain in favor of direct payments from the general budget.

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