CEPS COMMENTARY
Thinking ahead for Europe

# “An appalling way to behave”

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Once upon a time, the leaders of the EU agreed that they had had enough of endless discussions on how to raise sufficient resources to finance the expenditure of the EU. They decided to levy a mini flat tax of about 1% on the gross national income (GNI) of each member state. The tax rate was capped at 1.2%, but the exact rate to be applied each year was left to a complicated spreadsheet calculation, which a special committee would administer. But one problem arose: the data on GNI are subject to frequent revision (as are most macroeconomic variables). It was therefore decided to task the ‘GNI Committee’ to look at the data on GNI from member states, to validate the data and enter any new figures in the spreadsheet in order to (re-)calculate the contribution of each member state. This is done normally for the preceding four years, except in exceptional cases where specific open statistical issues are solved. This was the case for this current revision, in which data for the last ten years were used to recalculate contributions.[1]

Up until this year, the GNI Committee laboured in blessed obscurity because the data were usually revised very little. In the few cases where there were major revisions, the rules were fully applied. Those member states having to pay more did so without any fuss, and those having to pay less counted their blessings in private. [2]

This changed when, a few weeks ago, the British Statistical office proudly communicated that it had found out that the UK GNI had been much higher than previously thought, not only in 2013, but also in all previous years.[3] In essence, the British Statistical Office (not the EU!) declared that the UK GNI had been almost 4% higher in 2012 and by similar amounts in the previous years. The revised GNI data communicated now are about £350 billion higher than the sum communicated last year if one adds the revisions between 2002 and 2012.

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[1] The entire procedure is well known to the few aficionados of the EU budget and is detailed at: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Monitoring_GNI_for_own_resource_purposes

[2] Rarely do the revisions indicate a downward calculation, but it has happened, notably in the Luxembourg case with a negative correction in excess of 3% each year between 2010 and 2012.

[3] Officially this upwards revision was based on a change in national accounting procedures to European System of Accounts (ESA) 2010. But the same changes were also applied, proportionally, to the data under ESA 95, which is the relevant accounting convention for the GNI resource.

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In October, the new data were communicated to the GNI Committee and dutifully entered into the standard spreadsheet. The result was an upwards revision of the UK contribution by about €2 billion, which provoked Prime Minister Cameron to exclaim "This is an appalling way to behave...I am not paying that bill on the December 1st." At first sight, one would have expected a higher sum since 1% of £350 billion would have been much more. But other countries also revised their GNI data and the UK has a special rebate. The latter explains why the UK actually contributes less than the 1% of GNI that most other member states pay.

This is the essence of the 'tax on prosperity', which was so violently denounced. The commonly agreed rules are quite clear and seem fair: a small flat tax on the (gross national) income declared by the member states of the EU. Some members found out that their income had been much higher than previously thought and thus have to make up for past underpayments. Given the magnitude of the GNI correction for the UK, the change was particularly high, but not less in magnitude than the one for the Netherlands. The annual amount is in fact only a few hundred millions of pounds, but the sum over ten years appears large, although it is only a fraction of 1% of UK GDP or public expenditure.

There is no point in discussing whether the UK should contribute more to the EU budget because it has indeed become more prosperous. The basic point is simple: clear rules on the contributions of member states were agreed, by common consent, whose implementation essentially involved putting numbers into a spreadsheet. This was done expressly in order to take politics out of a potentially contentious process. Those countries contesting the numbers now are acting in bad faith. The EU cannot work if commonly agreed rules are thrown overboard whenever they do not suit a large member state.

At any rate, the upwards revision of UK national income will over time also increase the UK's obligations to many international institutions (IMF, World Bank, EBRD, etc.). Nobody seems to be complaining about this. The fuss about the EU budget is especially difficult to understand if one looks at the context in which this additional payment request arose.

Like all complex international organisations, the European Commission has to follow strict rules with procedures carefully negotiated and agreed by all member states. Prime Minister Cameron should have known that such figures do not appear out of the blue and are the result of processes in which his country is fully involved. The Dutch Prime Minister also received a bill in which his country's share of GNI was higher, but rather than launching into a populist rant, he announced that he would ask for details. Finance Minister Jeroen Dijsselbloem said that the Dutch will pay "if the facts and the figures are correct".

Another detail that Prime Minister Cameron neglected to mention in his speech is that by refusing to pay, he expects the other 27 member states to cover the UK's share. Now that, in our view, is "an appalling way to behave"!