A NEW ROLE FOR THE EU BUDGET: ADDRESSING THE EU DEMOCRATIC DEFICIT THROUGH FISCAL POLICY AND CITIZENS' PARTICIPATION

NUNO ALBUQUERQUE MATOS[1]
nunoalbuquerquematos@gmail.com

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Abstract

The intergovernmental decision-making process in the economic governance of the European Union promotes and consolidates a unitary element of integration that hinders the nature of EU integration as a federation of previously independent States. Importantly, this impacts the model of financing and expenditure of the EU budget, as well as the representation of EU citizens, which presents significant shortcomings. Importantly, the outcomes in these areas are increasingly at odds with the deliverables expected by EU citizens, which fundamentally explains the perceived democratic deficit between them and the Union. As a result, it is essential to enhance the democratic credentials regarding the financing of the Union. To this end, I discuss why the adoption of a direct tax on income of EU citizens, directly accruing to the EU budget, is a least imperfect way to pursue. Likewise, citizens will only accept democratising revenue if the nature of expenditure changes. Therefore, a generality principle is discussed for Union spending to ensure that majorities are required to approve expenditure that is able to generate value for all groups of citizens, indistinctively.

Keywords

Economic and monetary union; Financing EU Budget; EU Expenditure; Participation-based approach.

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[1] Católica Research Centre for the Future of Law.

UN NUEVO PAPEL PARA EL PRESUPUESTO DE LA UE: ABORDAR EL DÉFICIT DEMOCRÁTICO DE LA UE MEDIANTE LA POLÍTICA FISCAL Y LA PARTICIPACIÓN CIUDADANA

Resumen

El proceso intergubernamental de toma de decisiones en la gobernanza económica de la Unión Europea promueve y consolida un elemento unitario de integración que dificulta la naturaleza de la integración de la UE como una federación de Estados previamente independientes. Esto impacta significativamente el modelo de financiación y gasto del presupuesto de la UE, así como la representación de la ciudadanía europea, que presenta deficiencias significativas. Cabe destacar que los resultados en estas áreas discrepan cada vez más de los resultados esperados por la ciudadanía europea, lo que explica fundamentalmente el déficit democrático percibido entre esta y la Unión. En consecuencia, es esencial fortalecer las credenciales democráticas en materia de financiación de la Unión. Para ello, analizo por qué la adopción de un impuesto directo sobre la renta de los ciudadanos de la UE, con cargo directo al presupuesto de la UE, es una vía menos imperfecta. Asimismo, la ciudadanía solo aceptará la democratización de los ingresos si cambia la naturaleza del gasto. Por lo tanto, se analiza un principio de generalidad para el gasto de la Unión que garantice que se requieran mayorías para aprobar el gasto que genere valor para todos los grupos de ciudadanos, indistintamente.

Palabras clave

Unión económica y monetaria; financiación del presupuesto de la UE; gasto de la UE; enfoque basado en la participación.

UN NOUVEAU ROLE POUR LE BUDGET DE L'UE: COMBLER LE DEFICIT DEMOCRATIQUE DE L'UE PAR LA POLITIQUE BUDGETAIRE ET LA PARTICIPATION CITOYENNE

Résumé

Le processus décisionnel intergouvernemental en matière de gouvernance économique de l'Union européenne favorise et consolide une intégration unitaire qui nuit à la nature même de l'intégration européenne en tant que fédération d'États anciennement indépendants. Ce phénomène a un impact considérable sur le modèle de financement et de dépenses du budget de l'UE, ainsi que sur la représentation des citoyens européens, qui présente d'importantes lacunes. De plus, les résultats obtenus dans ces domaines sont de plus en plus en décalage avec les attentes des citoyens européens, ce qui explique fondamentalement le déficit démocratique perçu entre eux et l'Union. Il est donc essentiel de renforcer la légitimité démocratique du financement de l'Union. À cette fin, j'explique pourquoi l'adoption d'un impôt direct sur le revenu des citoyens européens, dont les recettes seraient directement versées au budget de l'UE, constitue la solution la moins imparfaite. Par ailleurs, les citoyens n'accepteront une démocratisation des recettes que si la nature des dépenses est modifiée. C'est pourquoi un principe de généralité est proposé pour les dépenses de l'Union, afin de garantir que les dépenses susceptibles de créer de la valeur pour tous les groupes de citoyens, sans distinction, soient approuvées à la majorité.

Mots clés

Union économique et monétaire; financement du budget de l'UE; dépenses de l'UE; approche fondée sur la participation.

CONTENTS

I. INTRODUCTION

This paper departs by acknowledging that the intergovernmental (Curtin *et al.*, 2019) decision-making process in European Union (EU) economic governance promotes and consolidates a model of financing and expenditure of the EU budget (Commission of the European Communities, 1977; Heinemann *et al.*, 2008; Richter, 2008; Lehner, 2020) as well as the representation of EU citizens, which presents significant shortcomings. This assertion stems from the fact that the European Council's outcomes in these areas are increasingly at odds with the deliverables expected by EU citizens (Myachenkova, 2018; Brantner, 2021). I argue that this disconnect is at the heart of the so-called democratic deficit.

As a result, it is essential to enhance the democratic credentials regarding the financing of the Union. To this end, I discuss why the adoption of a direct tax on income of EU citizens, directly accruing to the EU budget, is a least imperfect way to pursue. Significantly, underpinning this proposal is the idea of a Union of citizens, bound together by the EU budget. Moreover, I will argue that, from a literal and (most importantly) a teleological interpretation of art. 311 TFEU, the EU holds the competence to introduce this solution without needing to amend the Treaties.

Likewise, citizens will only accept democratising revenue if the nature of expenditure changes (Benedetto, 2019). The EU budget traditionally focuses on redistributive policies, mostly agriculture and cohesion. Although these policies may deliver some EU-wide benefits, they are increasingly misaligned with current societal needs. In fact, the Common Agricultural Policy (CAP) and cohesion resemble political priorities developed within the framework of the EEC Treaty and, while retaining some relevance, they do not fully match the dynamic societal progress of ensuing decades. Although some changes have occurred towards areas of increased EU-added value, this essentially static expenditure appears increasingly anachronistic, given that it does not allow the Union to tackle common challenges such as the euro-crisis, COVID-19 and, recently, the war in Ukraine.

Therefore, a generality principle is discussed for Union spending to ensure that majorities are required to approve expenditure that is able to generate value for all groups of citizens, indistinctively. Adopting such a principle would achieve three main objectives: substantially reducing minoritarian bias, improving institutional independence while deciding on expenditure and establishing a connection between the nature of spending and nature of revenue.

In order to address this matter, I adopt an approach centered on the participation of citizens in the political process. Such method "identifies the actions of the mass of participants as the factor that in general best accounts for the variation in how institutions function" (Komesar, 1997: 7). These actions have to be assessed in reference to the benefits and costs of such participation across the relevant population, which defines each participant's incentives to exercise their voice. These incentives (or stakes) are important because they define the kind of bias that is most likely to occur during the political process, which may be of two types: minoritarian[2] and majoritarian[3]. Both biases represent a skewed distribution of interests and entail problems related to democratic participation.

2 Minoritarian bias highlights the inordinate power of the few at the expense of the many. The risks of minoritarian bias are particularly high when either the benefits or costs of a particular legislation are concentrated upon one group of individuals or countries and its reverse costs or benefits are concentrated upon a large majority. Therefore, the group with high(er) incentive to participate (because of concentration of costs or benefits) will be better organised and informed. On the contrary, low(er) stakes result in low(er) incentive to participate, for instance because the loss to bear by each impacted person or group might be so negligible that they could possibly be completely unaware. Even if aware, they may stand still, either expecting to free ride on somebody else's actions, or because the costs of participating will outweigh the potential benefits.

3 Majoritarian bias is an opposite response to the same skewed distribution of impacts which characterise minoritarian bias. This means that it is an inordinate power of the many at the expense of the few. The risks of majoritarian bias come from the nature of the democratic process in which the majority wins, regardless of any cost/benefit analysis of a decision regarding the minority or the majority.

Importantly, the degree of participation is a function of the distribution of stakes and also the costs of doing so. In turn, these vary depending on factors, such as complexity and numbers (Komesar, 2013: 292). In a scenario of evolving complexity, it is more likely that institutions will produce less consensual outcomes since more people will exercise their voice.

However, in the current state of affairs it is unlikely that more participation will take place in the EU, most importantly because the European political public sphere is not adversarial or confrontational but essentially consensus-driven (Von Bogdandy and Bast, 2009: 290; Puetter, 2015: 165) notably because the constitutionalisation of political choices is isolated from ongoing public debates. Policies without politics was the formula found by the EU in order to maintain an idea of national sovereignty and a sense of nation-State. Notwithstanding, this formula has created a disconnect between the democratic experience (broadly national) and effective exercise of economic power (increasingly supranational) (Krastev, 2020).

In contrast with constitutional pluralism (Maduro, 2003; Goldmann, 2018; Schütze, 2022) — a concept designed to express the heterarchical relationship between EU and national laws, as opposed to being hierarchical — EU economic policy is becoming less plural and more monolithic. In fact, this seems to be the outcome of the nature of EU competences regarding this matter: coordination resembles a unitary conception of policies based on strict fiscal targets and economic policy recommendations.

Finally, I will employ a comparative method, notably with the US. There are several similarities between the US and the EU, notably the existent system of separation of powers designed to keep the relationship between the federal level and the States in balance as well as between the States themselves. Moreover, the sociological, economic and fiscal historical development, for instance, regarding the predominance of the States over the confederal and federal governments. Therefore, comparison with the US is useful to get a glimpse at certain features of the EU's future.

The paper proceeds as follows. At the outset, point 2 provides a brief excurse on the legal and institutional developments occurred pursuant to the financial crisis. Most importantly, it focuses on the direct effects of intergovernmentalism, namely the introduction of a unitary element in EU economic and fiscal policies, as well as an overreliance on one European Central Bank (ECB). Part 3 focuses on a more discrete effect of intergovernmentalism, namely the relative lack of significant reform of the EU budget, namely its financing and expenditure functions and capacity. Part 4 reflects upon the need to fundamentally change both components of the EU budget — revenue and expenditure, from a vertical to a horizontal nature.

II. INTERGOVERNMENTAL MANAGEMENT OF EU ECONOMIC GOVERNANCE SINCE THE FINANCIAL CRISIS: UNITARY ELEMENT AS MAIN SOURCE OF DEMOCRATIC DEFICIT

The Maastricht Treaty created a single currency governed by a monetary policy common to all Member States, the conduction of which was entrusted to the ECB. Monetary, economic and fiscal policies are usually connected and work at the same level of governance in order to better achieve social objectives. However, in the EU, these policies remained a competence of each Member State. Significantly, by only supranationalising monetary policy, Member States became misaligned. Conversely, misalignment was created at the EU level. As a result, the Treaty of Maastricht marked the beginning of a bifurcation in the EU. Such misalignment negatively impacts the economic performance of each Member State and its budgetary stability, as well as have an effect of contagion on others. Conscious of this, the Treaty framers established provisions intended to promote budgetary soundness[4].

The Stability and Growth Pact (SGP) quickly proved to be ineffective. Not only did it lack the capacity to discipline non-compliance[5] but, most importantly, it focused on individual Member States rather than common issues[6] (Hodson, 2004). Therefore, the ratio of the SGP is to avoid implementation of divergent and harmful national fiscal policies, not to manage macroeconomic issues (Buiter, 2006; Le Cacheux, 2010). On the other hand, the Maastricht Treaty framework restricted national stabilisation policies because the legal framework constrained its budgetary capacity. Moreover,

4 The first was an obligation to maintain national budgets in balance or at a surplus in the medium term. The second was a prohibition to surpass a public deficit of 3 % of Gross Domestic Product. These two rules essentially define the Stability and Growth Pact. Finally, the third was a prohibition of monetary financing of Member States by the ECB. These three rules were the backbone of a framework that intended to make markets responsible for assessing Member States economic performance and fiscal position, as well as making States responsive to market incentives.

5 As a matter of fact, the confidence on the efficacy of the SGP was undermined by France and Germany, after breaching it in 2002 and the corresponding excessive deficit procedures were suspended in November 2003.

6 As an instrument of economic coordination, the modus operandi of the SGP relies on the individual action of each Member State and in a case-by-case basis, which does not allow fiscal coordination on common EU matters. Indeed, the SGP placed a limit on Member State action concerning fiscal policy without taking into account neither the economic condition of the other Member States that are part of the EMU, Member State's past, present and expectable fiscal policy nor that of the ECB.

when such stabilisation efforts are pursued, the risk of externalities (the probability of positive effects being experienced by a country that did not make such effort) exists, thus reducing their national effectiveness.

In this context, the 2007/2008 financial crisis was a pivotal moment. How could countries without monetary policy competences handle such challenging economic conditions? In the absence of the power to issue currency to fund budgetary needs in situations of absolute necessity, or to erode the value of currency in order to correct balance of payment imbalances and to reduce the public debt burden with support of inflation, States are in a substantially weaker position. And, in fact, after rescuing some financial institutions, Member States' public debt levels increased substantially, causing the need for a few to request a bailout (Stiglitz, 2010; Wolf, 2015; Estella, 2018).

The failure of the Maastricht perspective of discipline-induced market pressure sparked the phenomenon of the unbounding of institutions of an executive nature (Posner and Vermeule, 2010) in the EU, both in terms of an immediate financial capacity — ECB —, what was perceived by the necessary democratic legitimacy to make decisions concerning financial and fiscal affairs — European Council — and the expertise to prepare the decisions are this latter institution — Eurogroup (Keppenne, 2020: 792).

As for the ECB, it unleashed a significant purchasing programme of public debt of the Member States to counter the economic and financial effects of such crisis (and later due to the COVID-19 pandemic). Importantly, this was the only institution with the necessary capacity and governance mechanisms to provide an effect of stabilisation in the EU economy (the various asset purchase programmes led to a balance sheet of almost €9 trillion in 2021, more than quadrupling since 2008), raising doubts regarding the compatibility with the principles of prohibition of monetary financing and independence of the ECB (Corti Varela, 2021)[7].

Moreover, and crucially, the magnitude and nature of the intervention (Scott *et al.*, 2021) exposed the institutional vulnerability of the E(M)U, by revealing that Member States were significantly dependent on the central bank: by investing significant funds in the purchase of Member States' debt instruments on secondary markets, financial affordability becomes *de facto*

[7] Monetary policy was scrutinised by the Court of Justice of the EU in Gauweiler (Judgement of the Court of Justice of the European Union of 16 of June 2015, *Peter Gauweiler and Others v Deutscher Bundestag*, C-62/14, EU:C:2015:400) and Weiss (Judgement of the Court of Justice of the European Union of 11 December 2018, *Heinrich Weiss and Others*, C-493/17, EU:C:2018:1000).

dependent on liquidity made available by the ECB. In addition, targeted ECB programmes — such as the Outright Monetary Transactions (OMT) or the Transmission Protection Instrument (TPI) — are conditioned on Member States compliance regarding EU economic governance, which effectively reinforces dependence (Baimbridge and Whyman, 2015; Macchiarelli *et al.*, 2020).

However, the problem with making institutional choices in the context of a lack of alternatives is that there is a higher probability of making a poorer decision. Importantly, the effects of these less-than-optimal choices will only be visible when reality becomes complex and intricate. Therefore, while averting imminent financial collapse may provide some justification for central bank intervention, it also attests to the fact that other institutional alternatives need exploring.

Concerning the European Council, it has assumed a coordinating role in economic governance, among other sensitive areas, since the Maastricht Treaty, under what is known as *new* intergovernmentalism (Puetter, 2015; Crowe, 2016; Puetter, 2022). However, crisis management shifted the role of the European Council from coordination to economic governance entailing discretionary executive decisions. Indeed, economic policy coordination has increasingly given way to public control, with significant powers of intervention granted to the EU institutions vis-à-vis Member States with financial difficulties[8], pursuant to the enactment of the six-pack and two-pack[9].

The Eurogroup is an informal body, initially thought to have a limited role. Indeed, article 137 TFEU provides that "arrangements for meetings between ministers of those Member States whose currency is the euro are laid down by the Protocol on the Euro Group". The preamble of Protocol 14 states that the Eurogroup aims to "promote conditions for stronger

8 Indeed, if a Member State has excessive public debt and deficit, as established by art. 126 (2) TFEU, a shift of competence is triggered, enabling the Union to adopt significant measures on national economic policy. This signals a dilution of Member State power in this regard, which is a paradox given that economic and fiscal policies are an area to which Member States originally attributed much importance and were keen to maintain in the national sphere.

9 Albeit nor without difficulties. In fact, the European Court of Auditors refers they have increased the complexity of the EU's economic governance framework, both because of a tendency for more technical rules and greater reliance on Commission's discretion and expert judgement, and because of the co-existence/overlapping of EU, national and intergovernmental rules and institutions (European Court of Auditors, 2023). This view followed a similar opinion from the European Commission (European Commission, 2022).

economic growth in the European Union and to develop closer coordination of economic policies within the euro area". To that end, the finance ministers of the Member States whose currency is the euro meet informally, to discuss questions related to the specific shared responsibilities regarding the single currency.

Despite the limited role foreseen by the Treaties, the financial crisis placed the Eurogroup in a prominent position, decisively influencing all substantial decisions regarding the euro area, from policy and planning to execution and implementation (Craig, 2017). In fact, at the height of the financial crisis, the Eurogroup was charged with the preparation and follow up of the Euro Summit meetings, which gathered prime ministers and presidents of countries whose currency is the euro (Fabbrini, 2016a). It is, however, worrying that this *de facto* evolution was not met by proper formal recognition, which hinders its political and legal accountability (Craig, 2017).

Hence, the financial crisis initiated a dynamic that has reframed Member States economic policy autonomy. The underlying assumption is that, in the absence of a common economic policy supported by a more robust EU budget within an increasingly integrated EU, especially within the euro area, interdependence between Member States means their interests are better maintained through an enhanced, surveillance-based economic policy coordination (Ioannidis, 2016). These features have been broadly maintained with Next Generation EU, as the European Council decided most of the important features of its funding and expenditure is mostly based on Member States' lines (Más Rodríguez, 2021: 169).

This new dynamic changed the relationship between the EU and its Member States, as the political direction of rescued states has been decided on by European institutions rather than by these states' governments. Indeed, it is European institutions and bodies and not Member States that dictate economic and budgetary policies, by virtue of a functional competence not foreseen in the Treaties: the maintenance of the stability of the eurozone (Lionello, 2020; Aymerich, 2021: 99).

By significantly shaping the way in which Member States take their decisions, the Union affects its relationship with its citizens, albeit in an indirect and subtle way. Top-down economic governance and fiscal rules have a bearing on democracy, such as increasing the lack of consequentiality of direct elections in Member States, reducing the role of national and EU legislative institutions or emphasising the indirect democratic legitimacy of some EU institutions. In a word: by introducing a unitary element, the EU's response to the financial crisis hindered the principles of democracy, subsidiarity and national diversity.

III. INERTIA OF EU BUDGET AS CONSEQUENCE OF INTERGOVERNMENTALISM

The institutional and legal evolution described in the previous part was a result of political and social necessity, given the lack of institutional alternatives at the EU level, namely regarding the EU budget. At roughly 1 % of GNI (Commission of the European Communities, 1977) it remains essentially static over the decades, with limited effectiveness in the exercise of a stabilisation function and growth policy, also mirroring the relative lack of scholarly analysis of it (Kilpatrick, 2024). Indeed, the well-known practice of *juste retour* is consequential for expenditure allocation. The relatively small size of the EU budget is confirmed by the Commission's proposal for the 2028-2034 MFF. Despite being heralded as the most ambitious long-term budget to date, with a total figure of almost €2 trillion, it represents a meagre and insufficient 1,26 % of EU GNI (Commission of the European Communities, 1977)[10].

On expenditure, priorities such as climate, migration, research and innovation have been increasing in budgetary relevance from 1988-1992 MFF, most notably in the 2021-2027 MFF (albeit still with very modest figures[11]). The Commission's proposal for the 2028-2034 MFF confirms this growing trend (European Commission, 2025), which is consistent with the growing EU calls to address issues such as health, defense and energy (D'Adamo, 2026).

However, even though decreasing, there has always been an overwhelming weight of the CAP and cohesion policy (Fabbrini, 2016b) in the supranational budget and this trend is also confirmed in the referred Commission's proposal for the 2028-2034 MFF. Although these policies have some features that deliver EU-wide benefits (Lehner, 2020) most funding is geographically pre-allocated[12], i.e. for (specific) Member States or sub-national regions. It is less commonly allocated to policies inducing transnational benefits (European public goods), therefore, hindering policies that would benefit Member States even in the absence of spending. Moreover, CAP and cohesion are policies that resemble political priorities developed

10 In fact, it is just over the average of the 1993-1999 MFF, which was 1,25 % of EU GNI (European Commission, 2018b: 24).

11 In the MFF 2014-2020, slightly over 7 % of its resources were allocated to programmes other than CAP and cohesion. For 20 of those programmes, yearly funds were small, having varied from €18 million to €185 million (Cipriani, 2014).

12 More than 2/3 of expenditure is directly or de facto pre-allocated on a country basis as part of the MFF (Cipriani, 2014: 80).

within the framework of the EEC Treaty, are eminently redistributive and focus on Member States rather than the EU as a whole (Heinemann *et al.*, 2008; Lehner, 2020: 21).

This budgetary inertia can only be properly understood if considered in connection with Member States' intention to keep economic and fiscal policies at the national level. This choice is also reflected in the nature of the EU budget's funding, which is largely dependent on Member States. The former has been dependent on Member States, given that most of its revenue comes from national contributions.

In this context, for the 2028-2034 MFF the Commission proposes five new own resources: new own resources based on revenue from the EU Emission Trading System (ETS), the Carbon Border Adjustment Mechanism (CBAM) and non-collected e-waste; the corporate resource for Europe (CORE); and a tobacco excise duty own resource (TEDOR). The Commission estimates that this own resource package raises annual revenues of €58.2 billion, which would exceed the necessary amount to cover NGEU debt repayment, but necessary to keep overall GNI contributions of Member States unchanged (Pari and Pradier, 2025).

Although it is not the scope of this paper, doubts arise regarding revenue stability and foreseeability. In fact, while CORE revenues could grow over time, own resources based on the ETS and the CBAM, as well as TEDOR, could decrease if the policies they are to support are effective (Schratzenstaller, 2026: 9). Moreover, there is a question on the appropriateness of resources based on policies: if employed with a revenue objective, then the tendency might be for the European Commission to bundle taxes with new policies or, more worryingly, to propose policies not for the sake of EU citizenry but the sake of the EU budget.

Similarly, to the expenditure side, the nature of funding is also progressing in the direction of reducing the degree of prevalence of national contributions, although they remain very significant (Schratzenstaller, 2026: 5)[13].

The symmetry between the nature of revenue and expenditure is an important feature. As EU budgetary history shows (Benedetto, 2019; De Feo,

[13] There is a strong contrast between this situation and that of mature federations, such as the United States of America (US) or Germany, where several of the main functions, ie of social nature, are attached to the federal government and there is a substantial degree of direct connection with citizens of the respective States or regions. Accordingly, these federations are characterised by the predominance of federal taxes over state taxes and relatively large federal public spending, ranging from 37,9% to 49,4% of GDP, respectively (Ratchford, 1947; Matson, 1996; Gerstle, 2018).

2016) the source of income and source of authority/legitimacy are two essential components that need to be jointly considered. When both are aligned, as they were between 1958-1970 and as they are currently, budgetary stability emerges and endures. However, the consequence for matching source of income and authority in Member States is that a consensus is difficult to reach regarding the increase in the overall budget as well as the type of policies that it finances.

Therefore, although improving, the EU budget does not take EU-added value investment into significant account. And, even if it did, the impact would not be substantial enough to make an impact on stabilisation impact, due to its meagre size. This is, indeed, a worrying aspect, not only because the ECB is legally prohibited from acting as a lender of last resort to Member States (Grauwe, 2018: 182) but also due to the restrictions in place regarding national economic policies since the enactment of the Maastricht Treaty, which hinders the national toolkit to tackle crises.

An exception to this was the adoption of NGEU, which attempts to shift the focus of the political process from Member State coordination to EU-led fiscal funding. To a certain extent, NGEU also marks a transition to shift the nature of Union expenditure from redistributive policies towards investing in policies capable of delivering greater transnational benefits, such as mitigating the socio-economic effects brought about by the pandemic, preparing the Union for future sanitary catastrophes, as well as investing in efforts towards the EU climate targets (Hodson and Howarth, 2024; Crespy *et al.*, 2024).

However, several issues remain that hinder the transnational dimension of the programme. At the outset, Member States are considered to be the sole beneficiaries of the Recovery and Resilience Facility (RRF), which means that the European Commission's legal responsibility stops at Member States' borders (Porras-Gómez, 2023: 9)[14]. As a result, States directly manage the funds and bear the responsibility of formulating and implementing their specific programmes (Mazzucato *et al.*, 2023).

Moreover, NGEU was predominantly established by intergovernmental institutions. In fact, the European Council and the Council had an important role deciding on own resources as well as the approval of the recovery and resilience plans and their monitoring, respectively. This is problematic given the dysfunction characterising these EU institutions and the ensuing legitimacy issues.

[14] Articles 8 and 22 (1) of the RRF Regulation.

By linking these plans to the country specific challenges and priorities identified in the European Semester, as well as those identified in the Council's recommendations on the economic policy of euro area Member States, article 17 (3) of the RRF Regulation reinforces the national footprint and the vertical relationship.

Finally, the timeline of implementation. Although funding allocation took important factors into account for this latter role[15], the first national programmes were approved in July 2021, more than a year after the first lockdown, when many EU Member States had, or had nearly, recovered pre-pandemic economic levels. Moreover, around three quarters of RRF payouts become effective from 2023 onwards. However, budgetary stabilisation instruments are primarily designed to deliver during economic downturns (Lejour and Molle, 2011: 87), not after. For these reasons, NGEU is a programme designed to fit a redistributive role rather than a role of stabilization (Más Rodríguez, 2021).

Given the foregoing, how could an EU budget receive a transnational account or EU-wide focus (i.e. transnational infrastructure; innovation and technology; or stabilisation of the EU economic cycles) if economic policies are in Member States' sphere of competences? My view is that the root problem of EU economic and monetary integration is one of citizens' participation and should be address by putting citizens at the center of the solution, by way of introducing a significant reform in the two major budgetary elements: revenue and expenditure.

Moreover, more people are impacted by the progression of economic and monetary integration, therefore, broadly distributing the social impact. In theory, this state of affairs reduces the stakes of citizens per capita and furthers the effect of dormancy of political majorities, which, ultimately, reduces participation (Komesar, 1996). Nevertheless, EU budgetary policies and democratic input remained essentially static, with the creation of few mechanisms to deliver EU public goods and give citizens voice at the supranational level. At the same time, EU economic governance made voice at the national level less consequential, in general, but emphatically on fiscally distressed Member States. Conversely, fiscal soundness results in having more autonomy to define and implement national economic policies. This fragmentation led to an uneven distribution of interest in Member States' polities.

[15] Annex I of the RRF Regulation establishes factors with a stabilising nature, namely inverse per capita GDP; average unemployment rate over the past five years compared to the Union average in the 2015-2019 period, the fall in real GDP in 2020 as well as the fall in real GDP in 2020 and 2021 combined.

IV. THE IMPORTANCE OF CITIZEN PARTICIPATION IN THE EU BUDGET

1. PARTICIPATION IN BUDGETARY REVENUE: THE CASE FOR EU TAXATION

1.1. Can direct taxes be adopted?

I adopt a narrow definition of EU tax, to include those over which the EU exerts both legislative and revenue authority. In fact, the use to define national taxes that are subject to harmonization as EU taxes is limited, as parts of the legislative and revenue authority remain with the Member States (Waldhoff, 2016).

However, the EU budget has always been primarily funded by resources collected pursuant to a deliberative process that is eminently determined at Member State level. For instance, in the EU, the VAT Directive sets the general framework for VAT rates. Within this framework, it is up to each Member State to set the specific rate and the categories of supplies to which each rate applies[16]. The link to the EU budget is made through the application of a uniform rate capped at 1,4 % of the VAT base, limited to 55 % of GNI. Other national contributions result of the application of a uniform rate to the GNI of each Member State, to be set within the framework of the budgetary procedure (De Feo and Laffan, 2016: 6).

The exception to this is to be found in the customs duty, regarding which the EU has its own right to tax as it retains the sole legislative authority as well as its revenue. Moreover, such an amount is then passed onto the price of imported products, which is paid for by consumers. This constitutes an indirect tax.

Hence, it follows that the Union already levies taxes, even if only in the realm of commercial policy (Waldhoff, 2016: 154) which contradicts a commonly held conception that taxation is a matter of exclusive Member State competence. Therefore, the question is not whether the EU can levy taxes on its citizens, which it can and already does, albeit based on a specific supranational policy. Rather, we should inquire whether the EU has the competence to lay taxes of general nature for EU citizens.

Art. 113-115 TFEU entrust the EU with broad competence to approximate national laws to ensure the proper function of the internal market,

[16] Article 97 of Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax, stipulates that the standard rate in EU countries must be no less than 15 %, to most goods and services, although some derogations exists. There is no maximum rate. As a result, VAT rates vary across Member States. Available at: https://n9.cl/2rsxm7.

including the area of taxation (Kokott, 2022). While art. 113 TFEU expressly covers indirect taxation, art. 115 TFEU allows the adoption of directives for the purpose of harmonising fiscal provisions, including in the area of direct taxation, to the extent that it directly affects the establishment or function of the internal market.

Although there are scholarly contributions suggesting that these can serve as a legal basis for EU levies (Lindholm, 2023) as was the case in past European Commission proposals (European Commission, 2018a) it is, in my view, doubtful that these Treaty provisions are proper to pave the way for the implementation of (direct or indirect) taxes directly accruing to the EU budget. The harmonisation of national tax laws could be relevant to financing the EU budget if, for instance, the Union intended to keep a share of the nationally-raised revenue of these taxes.

While this route could be useful in specific areas, notably digital companies or financial services, in which mobility of tax subjects is high, it is difficult to envisage a similar solution regarding citizens. First, broad tax harmonisation would hinder the consequentiality of national electoral processes as well as ongoing political debates, as it would constrain Member States' ability to freely define their taxation policies, an important matter to polities. Second, given that all EU budgetary revenue is defined by the Own Resources Decision (ORD), it is difficult to envisage a solution that would skip the application of art. 311 TFEU.

In the literature, there is significant support to the view that article 311 TFEU does not in itself constitute a competence base for the introduction of an EU tax via secondary law (Waldhoff, 2016; Cipriani, 2016; Barreau; 2023). This perspective is also adopted by the German Constitutional Court, which stated, in its Maastricht judgement, that the Union must be regarded as a compound of States that does not possess a legitimising community of its own. Rather, the people of Europe primarily legitimise themselves by their respective national parliaments and, complementary, by the European Parliament. Nonetheless, Waldhoff goes one step further by accepting that art. 311 TFEU may encompass a new own resources decision introducing direct taxes as a new own resource (Waldhoff, 2016).

From my point of view, there is no reason why art. 311 TFEU should not be considered a valid Treaty basis concerning the financing of the EU[17], namely for levying general[18] or specific EU taxes (Plasschaert, 2004; Begg,

[17] For an opposing view, see Barreau (2023: 50), Senyk (2023: 153), Kokott (2022: 727).

[18] The admissibility of levying federal income tax under the 16th Amendment was also discussed in the US. See Hubbard (1920). However, such an amendment is considered

2011; Motte, 2014) understood as those over which the EU exerts legislative authority, thereby defining them independently of national legislatures. Own resources is, indeed, a suitably indeterminate concept to encompass a range of revenue of a very distinct nature, be it national contributions or taxes.

Therefore, the problem is not with the concept itself but with the elasticity we permit in its interpretation. However, that does not mean that the legal basis does not exist. It merely begs the question of whether we should interpret it more broadly. As will be further explored below (section 1.3), the Union originally envisioned by the Treaty — and much in the mind of the German Constitutional Court — was one predominantly influenced by Member States. In contrast, the TEU recognises the existence of a direct connection between the Union and its citizens.

Taxes are generally used to further the values of each society (Antón, 2023: 35). Art. 2 TEU recognises the values shared by Europeans. These values are the basic underpinning of the legitimacy of the EU and, from an institutional standpoint, have allowed it to be more than an international organisation, albeit short of a nation-State, with competences that impact the lives of its citizens from internal and external perspectives.

Internally, the EU has the capacity to legislate in a vast array of areas, notably the single market. Ironically, integration on this front has proved to be a challenging force for the principles of subsidiarity and proportionality. As Member States increasingly interconnect economically, the most effective decision-making locus in the management of externalities-based problems is not the national but the EU level.

Externally, the EU has the potential to further its citizens interests more effectively than any Member State acting individually, primarily as a result of its economic weight (Zhimin, 2012; Watt, 2023) as recognised by the establishment of the common foreign and security policy.

1.2. Changing the voting threshold?

One way to correct the minoritarian bias in EU economic and budgetary policies is to change the voting threshold in the ORD and MFF from unanimity to majoritarian rule (Boissenin, 2020: 147). Indeed, a lower threshold of approval reduces the skewed distribution of power each Member State possesses under unanimity rule, which could prompt a better alignment of some Member States with citizens' preferences. As majoritarian influence

indispensable to sustain the current conception of the US fiscal architecture, as argued by Jensen (2014).

grows, we can get a countervailance between forces and political outcomes that are more balanced (Komesar, 2013: 297).

Be that as it may, formal rule changes can run afoul of informally established decision-making processes (Komesar, 2014: 43). In fact, there is evidence that the logic of consensus prevails in the European Council and Council, regardless of majoritarian rule (Van Middelaar and Puetter, 2022: 51). A possible explanation for this phenomenon may be that "[m]ost legislators […] are not motivated by resource allocation efficiency and the political process is subject to severe political malfunctions such as minoritarian bias and the associated costs of rent seeking" (Komesar, 2013: 304; Buchanan and Tullock, 1962: 217). Therefore, we cannot expect that changes in the voting threshold per se will necessarily lead to a (significant) change in national governments' behaviour in the supranational institutions.

Importantly, European citizens' current political participation does not seem to be enough to reduce the skewed distribution of stakes in the EU political process. Paradoxically, more access to the decision-making process, per se, may not solve but rather aggravate problems of participation, as its dynamics depend on the costs and benefits with which it is associated. If the individual benefits of most people are low, either because they are highly disseminated or because there is an insufficient degree of information, then participation decreases, hence making the political process more prone to concentrated interests (Komesar and Maduro, 2014: 21). Indeed, EP elections are traditionally associated with low turnouts and reduced mobilisation of the European electorate, possibly as a result of the lower level of importance this institution is entrusted with regarding budgetary issues and EU economic policy in general (Cabannes, 2019).

In addition, the so-called technocratic, apolitical form of governance pursued by the European Commission is, in itself, a feature that hinders participation, worsening this state of affairs. However, even if the dynamic of intergovernmentalism would change, that is, if removal of the unanimity voting threshold regarding ORD and the MFF would resolve the issue of minoritarian bias, the Union would still have to deal with other problems, namely the fact that the budget was small in size, which largely contributed to its reduced visibility.

1.3. The missing ingredient in European demos: bolstering citizens' participation through direct taxes

The problem is not so much legal as it is political (Lindholm, 2023:3) as taxation is highly connected to State sovereignty. In this vein, some authors strike a note of caution. In their view, the bond that is necessary in order to form a European *demos* is lacking (Weiler *et al.*, 1995; Kaufmann, 2014: 280; Weiler, 2017: 366; Cafaro, 2023: 33)[19]. Hence, the EU must be legitimated by a dual structure in which Member States, not its citizens, must be considered central reference points (Grimm, 1995; Waldhoff, 2016: 157; Lehner, 2020: 23).

Importantly, then, the current conception is that taxation powers are linked to national budgets because they reflect national sovereignty and identity, which Member States want to preserve. Therefore, the underlying teleology of the Treaties is necessarily restrictive in its interpretation of the concept of own resources enshrined in art. 311 TFEU.

In this regard, it is also important to recall that, similar to the US, the EU was created by sovereign States. Resembling the EU Treaties, the US Constitution was a compact between the people of the different States, not as one nation. Rather, it was a unanimous assent of the signatory States[20].

However, similarly to other federal unions of States, the European unification project must be understood from the moment of its inception "on the basis of the fundamental wish for political autonomy on the part of its founding states and their incapacity to […] secure this autonomy as fully independent states" (Larsen, 2021: 62). Thus, EU integration has entailed a fundamental transformation, entailing a process of transformation from nation-State to Member State, and not a zero-sum, multi-level struggle over sovereignty (Larsen, 2021: 82). The outcome of this consciousness is the sense

19 While I certainly see reason in the assertion, in hindsight it seems that the management of the euro crisis may have been a pivotal moment for European integration. Indeed, the euro crisis brought the flaws of the EU edifice into broad daylight. But it was more than that: it brought the effects of Member State interdependence to the forefront of the European public, something that was not very visible in the good times of the first years of the euro. The progressive internalisation of this situation in the European public has permitted the adoption of a different approach to the pandemic crisis (with the enactment of NGEU) and even the energy crisis pursuant to the war in Ukraine (with very few exceptions in the political discourse, there was overwhelming support for a solidarity-based response).

20 Evidence of this can be found in art. 7, which establishes that the ratification of only nine States would suffice for it to enter into force, although it would not have a binding effect on the other four. This means that the will of the majority of the States and their respective peoples would not supersede the will of minorities. If, at that time, the people of the United States were to be considered as one nation, then the opposite would have been expected, that is, the will of the majority of US citizens would bind the minority, just as it occurs in any individual sovereign State. As a result, each US State ratified the Constitution as a sovereign body.

that accomplishing a certain set of goals — for instance, security, stability or citizens' welfare — is only conceivable together.

In the EU, the path to achieving these objectives was made possible by guaranteeing peace through economic prosperity and the integration of States through the four freedoms (Schelkle, 2009: 830; Barnard, 2022)[21]. As a result, supranational activity on free movement and internal market completion have fostered a sense of union between citizens, a dynamic societal process[22], which has been recognised by Member States in the Treaty changes that have taken place overtime.

While the single market was more sensitive to arguments of an economic nature, monetary union was more prone to political considerations. In this regard, Marjolin and Delors' reports highlighted that the euro was an important endeavour to European unity, notably if Member States wanted to continue to play a role in world affairs and ensure their own protection, given that only unity could restore the influence they had lost (European Commission, 1975: 1; Delors, 1989). In other words, once peace and the seeds of economic integration were laid down, the Union started looking not only inwards but outwards, in an evolving sense of Member States' self-preservation through the Union by resorting to integration with increased political significance[23]. Therefore, this evolution is a clear expression of the double

21 In a way, this resembled the situation in the United States before the New Deal and the so-called fiscal revolution, in which the US Government played a reduced role both in redistribution and macroeconomic stabilisation, which took place between the presidencies of Herbert Hoover and Lyndon Johnson. See Gerstle (2018). Importantly, the commerce clause enshrined in the US Constitution allowed the judiciary to create a single market by regulating interstate commerce. On the scope of the commerce clause, see Amar (2005); Epstein (1987); Nelson and Pushaw (1999). In the jurisprudence see *United States v Lopez [1995] 514 US 549*.

22 Arguably, the most relevant indicator is the feeling of citizenship. In this regard, the Spring 2019 Eurobarometer informs us that 73 % of citizens feel European, up from 62 % in 2010, especially among the segment that is definitely sure. On the contrary, 26 % do not feel like European citizens, down from 37 % in 2010. Importantly, only 8 % are sure not to feel European (European Commission, 2019). These figures contrast with the early 1980s, when 46 % of people never thought of themselves as European citizens (European Commission, 1983). Arguably, the war in Ukraine only came to reinforce such European feeling among citizens, as empirical data seems to suggest (Steiner *et al.*, 2023).

23 Monetary union improved the federal spirit of the political projects from the early 1950s and 1960s. Arguably, Brexit and the war in Ukraine have sparked the same impetus, as the establishment of the European Political Community, in 2022, has shown.

telos of federations, which is generally based on the principles of independence and interdependence (Benz, 2011: 11).

This increased bond does not, however, peril diversity in Europe. Neither should there be fear that homogenisation endangers the integration process: acknowledging the autonomy of Member States as a defining feature of federations (and that of the EU), it is necessary to conclude that respect for the diversity of its citizens is an intrinsic characteristic of the system (Waldhoff, 2014: 127-128). In fact, it must be seen as a necessary condition for its broad societal acceptance[24].

As important as respecting diversity is, we should be mindful that the coexistence of unity and diversity in the federation is based on the condition of a certain degree of homogeneity between its Member States. For this reason, Member State autonomy is constrained by the EU's constitutional identity, as established in art. 2 TEU. In other words, while diversity is a feature of federations, the degree of difference may not be so wide as to make them differ significantly on a fundamental level: the federation should be composed of States of the same nature (Montesquieu, 1989: 131) if it is to preserve a minimum level of unity, such as shared materials interests (i.e. the defence of welfare) and uniform civilization (Tocqueville, 2021: 270).

In this vein, preference heterogeneity and cultural diversity are significantly more acute within Member States than between Member States. In fact, there may be more similarities between regions of Member States (i.e. northern Italy and southern Germany) than between national regions (i.e. northern and southern Italy). Moreover, the differences between the citizens of EU Member States are not greater than those that exist between the citizens of US States (Alesina, *et al.*, 2017: 171)[25]. Therefore, it is legitimate

[24] Connection with States of origin finds parallel with US constitutional history, whereby both the constitutional expression of "people", as well as the empirical data, supports the view that no reference was being made to a new "American nation", as the hodiern interpretation may suggest. See Morison (1927). Empirically, most citizens of the United States in 1790 did not identify the US as one nation. Rather, they would identify not as American but as a citizen of their State of origin. John Calhoun also argued that there was no political community in the US and, therefore, the people of the United States could not be considered as constituting one people or nation. See Calhoun (1851: 162).

[25] This study does not cover eastern Member States and relates to the 1980-2009 period, therefore, not covering the multiple crises that followed. Despite the so-called north-south divide that erupted during the euro crisis, the EU was nonetheless able to withstand it and, ultimately, adopt a different approach to COVID-19 and the war in Ukraine.

to ask, if democracies in (each of the) EU Member States and the US can handle substantial diversity, why the EU (as a whole) could not cope with a similar level of heterogeneity?

Moreover, EU constituent power is not held by Member States alone, as it is shared with EU citizens. As Habermas argued (Habermas, 2011: 36-39; Calliess, 2011: 19)[26], EU citizens are a democratic sovereign, holding a double capacity in the exercise of constituent power, both as citizens of their Member States and of the Union. Therefore, the division of sovereignty would not treat Member States and the EU as different subjects, but as two capacities of the same subject (i.e. the citizens in their legitimating role of different democratic levels). As a result, by coming together in a federation, "Member States give birth to a new political association that is autonomous from them. A federal union of states is different from the sum of its parts" (Larsen, 2021: 105).

Hence, the EU, as a Union with federal features (Forsyth, 1981: 183), cannot be considered as subject to its Member States, as it has a direct responsibility vis-à-vis its citizens. From this perspective, the adoption of the euro is as much an expression of this commonality as is a need to adjust the legal framework to better reflect this. It also expresses the contradictory nature of federations in their attempts to be conservative (by preserving the diversity and identity of its constituent States) and forward-looking (a future that Member States can only envision being united). In turn, this unity presupposes a reconciliation of divergences between States and peoples, which creates an enduring tension that must be channelled through democratic and integrated procedures in a way that restrains the States' powers in the federal setting[27].

In other words, the Union originally envisioned by the Treaty was one of Member States, in which citizens were indirectly connected but also partitioned along their respective States of origin. In contrast, the TEU reflects a significant evolution, whereby Member States recognise the existence of a direct connection between the Union and its citizens: increasingly, citizens bond with the Union despite Member States and not only because of them

[26] However, this conception counters other views whereby *Kompetenz-Kompetenz* lies with Member States, especially the German Constitutional Court, justifying the adamant protection of the ultra vires review. Supporting this view see Kirchhof (2009: 735); Grimm (2017: 39); Barreau (2023: 37).

[27] Likewise, the aim of the US Constitution was not to "destroy the existence of the States but only to restrain it". In fact, it only gave expression to "a recognized power that had to be treated gently and not violated". See Tocqueville (2021: 199).

(Habermas, 2011: 48). As in US constitutional history, the main difference between the Articles of Confederation and the 1787 Constitution is that the latter is primarily focused on individuals and not on States[28].

Be that as it may, a broader exercise of the power of taxation at a supranational level is at least as contentious an issue as was the introduction of a common currency, given that Member States traditionally consider that budgetary and the correlated issue of taxation should remain a matter of exclusive competence (Farri, 2023: 83). In fact, Member States' experience with the creation of monetary union shows that, when sovereignty issues are at play, economic soundness is a necessary but ultimately insufficient condition to bring about substantial change. Therefore, it is not enough to rely on concepts such as fiscal federalism, efficiency and economies of scale in order to achieve integration in EU budgetary and fiscal realms.

Notwithstanding, conferring the power to "collect taxes on the EU would not hinder Member States' prospects of using taxes for their democratically established ends. Member States, as the primary sites of the European taxpayer's social and economic ties, would retain their power to tax alongside the EU and they would still be allowed to use taxes for various fiscal and redistributive purposes" (Jaakkola, 2023: 75).

Importantly, since 2008, Member States have dealt with an increasing array of crises for which an EU response was ultimately necessary[29]. This shows that, in its current state, the EU already adds significant value to the Union and Member States' polities. Crucially, it also signals potential to increase its role which is, in itself, a factor to consider in the legitimacy to lay

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28 *Hylton v United States* [1796] 3 U.S. 171, in particular the opinion of Justice James Iredell, which was one of the most fervent supporters of States' rights during the Philadelphia Convention. See also Ackerman (1999).

29 These crisis are, namely, the financial crisis, sovereign debt crisis, migration crisis, COVID-19, climate change, war in Ukraine. Notably, as a response to the most recent crises, NGEU has seen a shift in the classic North-South divide, particularly regarding the German interpretation of the programme. Specifically, Germany broadly considers NGEU as a way to strengthen EU identity/polity, as a matter of solidarity and to reinforce the position of the EU as a global player. In essence, it increasingly sees fiscal solidarity as necessary to safeguard the political cohesion of the Union as well as to provide an opportunity to Southern economies to catch up with the North. On the contrary, the so-called Northern coalition deems large-scale fiscal solidarity as justified only if it is exceptional and temporary and if it serves to strengthen the internal market. Hence, diverging visions on what the EU is and why it should be embraced coexist along the Northern–Southern cleavage in Europe. See Miró (2022: 4).

and collect taxes (Jaakkola, 2023: 76)[30]. The EU budget is at odds with these developments, as it still depicts a Union of fully sovereign, autarkic States with connections purely based on, and limited to, economic interests broadly based on national concerns, progressively transforming the EU budget into an anachronic instrument (European Commission, 2016: 15; Crowe, 2017).

In my view, citizens' perceptions regarding the EU budget are mostly a result of the current setup of expenditure. As the overall amount is small, visibility is reduced. Hence, people perceive their respective national public spaces as the most effective spaces in which to perform political debates and as most relevant regarding budgetary choices. This is the reason that most aptly explains the general perception that the EU budget delivers poor value-for-money (Cipriani, 2014: 75) and the ensuing fear that the introduction of a tax-based revenue stream could become contentious.

Most importantly, however, on a conceptual basis, the EU budget should not be a mere redistributive instrument between Member States, as it currently is. Instead, it should work as a tool to internalise commonality in the EU and give it a more concrete expression to which people can relate with.

More than a budget, it should be an instrument to bolster voice in EU citizenry, whereby people can have meaningful debates, exercise their choices through consequential vote and pay for those choices. Crucially, the nature of expenditure is inextricably linked to the nature of revenues. Therefore, if expenditure is mostly invisible and misaligned with citizens' priorities, they will not be willing to finance it.

Accordingly, the focus on each tax at a supranational level should be on the incentives granted for citizen participation in their polity to counter minoritarian bias in EU economic and budgetary policies. In an intergovernmental system of governance, such as the one currently in force in the EU, that means that each government fosters the interests of their own population (each of them minoritarian vis-à-vis the EU population as a whole).

From this perspective, indirect taxes (i.e. value added tax, EU Emissions Trading System, plastic and fuel) or direct taxes with a narrow scope of application (i.e. multinational enterprises, financial transaction tax, high incomes and wealth) lack sufficient powers of mobilisation of EU citizenry due to their relative lack of visibility[31].

[30] This is also attested by the mismatch between what the EU budget delivers and what EU citizens expect from it.

[31] With a different view, supporting that indirect taxes, such as VAT, could deliver this outcome see Cipriani (2014: 72). In this author's view, EU VAT would operate in tandem with national VAT system, without the need to create a parallel system.

In my view, it follows that broader direct taxation of the Union's citizens is necessary to entail mobilisation and could be a less imperfect alternative, which delivers a better balance, namely on economic policy, both from a governance and societal point of view. It would also cause the nature of EU integration to change fundamentally. Through direct taxation, European citizens would not only connect *with* the Union but also *between* themselves in a process that I would designate the horizontalisation of the Union. If we look at the experience of the US in order to shed some light on the potential democratic impact, it would significantly increase participation in the political process[32].

If this understanding is correct, EU citizens' voice (Hirschman, 1970; Weiler, 1991) would be reframed. On the one hand, the introduction of direct EU taxes to European citizens would prompt the increase of political participation, thereby creating the conditions to break the vicious circle of nationalistic *juste retour,* linking funding to citizens as a way to promote participation sequences concerning policy options. On the other hand, Member States should regain their economic policy autonomy, thereby re-establishing the value of citizens' vote in national elections[33].

Instead of the vertical link referred, whereby an attempt is made to enhance supranational legitimacy by procedural means, fiscal restrictions and surveillance are adopted to avoid the transfer of resources *between* States. While arguably allowing monetary financing to occur, the EU would be in a situation in which it could deliver equal treatment for equals[34]. Ultimately, resource legitimacy should be the main factor in choosing resources. Thus, citizens, rather than States, ought to be the main source of revenue.

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[32] This is what occurred after the 16th amendment came into force, in 1913, which vested the Federal Government with the power to lay and collect direct taxes on income without apportionment between States. In fact, there were a total of 15 million ballots cast in the 1912 US presidential election. This compares with 18.5 million in 1916 and 26.6 million in 1920, almost doubling the figures in eight years. Since the US Government raised direct taxes pursuant to the 1929 Great Depression, participation grew significantly from 36.7 million in 1928, to 39.6 million in 1932 and 45.5 million in 1936. In this regard, it is worth noting that, until 1968, participation in the electoral act is roughly equivalent to the increase of the voting age population, which goes to show the motivation to vote. Available at: https://n9.cl/0nnew. With a similar view, although reasoning in the context of the German *Länder* see Waldhoff (2014: 127).

[33] For an overview of euro crisis emergency management, which sometimes introduced severe constraints of national democratic processes, see Kaidatzis (2021).

[34] Equals are individuals in the same objective economic circumstances, usually employed in the calculation of tax burdens.

2. THE IMPORTANCE OF BUDGETARY EXPENDITURE FOCUSED ON CITIZENS

2.1. Linking expenditure to citizens to preserve the federal union of States

There are, essentially, two models of expenditure in the Union: one performed by the Union budget and one performed outside it. The stabilisation function is by and large conducted by the latter, mostly by way of the European Stability Mechanism (ESM) and within the context of a financial emergency, which can be characterised as a response to a threat and, therefore, a form of federal constitutional defence.

Although crucial to the survival of the federation, the process of verticalisation introduced a strong unitary element (Larsen, 2021: 149; Fabbrini, 2025)[35] which creates a paradox in the EU. In fact, many of the arguments against further fiscal integration rely, in essence, on the need to preserve national constitutional identities and the idea that the differences among the peoples of Europe are so wide and insurmountable that a pool of fiscally derived resources would put that at risk. How, then, can Europeans accept a unitary element of governance, present in complex periods (i.e. ESM) as well as on an on-going basis (i.e. the economic governance framework in force)? And, crucially, it is in more difficult situations that institutions perform worse. If this assumption is correct, then a vertical system of governance, especially in emergency situations (i.e. asymmetric shocks), risks hindering diversity and national identities, potentially pushing the Union to recurrent situations of inter-State tension and social conflict.

For this reason, as the example of Germany shows (Kumm, 2013: 16) it is undesirable to place States in a position of equal fiscal ability through a system of intergovernmental transfers, as highlighted by Buchanan (Buchanan, 1950)[36], Niskanen (Buchanan and Musgrave, 1998: 195; Ahmad and Craig, 1977: 82)[37]. However, that is not the case with people, to whom the principle

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35 The author establishes a distinction between coming-together federations (federal unions or federalism by aggregation) and holding-together federations (federation by disaggregation or federal States).

36 Cautioning against this approach, Musgrave considers that although needs are experienced by individuals, they are experienced by individuals as citizens of particular jurisdictions. Hence, funds should be transferred from high capacity and low need jurisdictions to others of high need and low capacity. See Buchanan and Musgrave (1998: 166).

37 Niskanen argues that transferring money to States would suffer from the so-called "fly-paper effect", i.e. money sticks where it lands. Therefore, a clear division of

of equality, established in art. 2 of TEU, should demand differentiation in treatment by taking into account the degree of citizens' economic and social disparity, regardless of their state of residence.

Consequently, through its budget, the EU could treat equals equally, not to ensure an equivalent standard of public services across Member States, but rather to offset the divergencies in the income and wealth levels within them. An understanding, such as the one I propose, would, I believe, positively address the "poisonous tree" of European integration, which is the concept of the creation of a transfer union *between* States.

Union equity transfers to individuals would represent neither the subsidisation of some Member States nor charitable contributions to less financially well-off people. Rather, they would be necessary adjustments to keep the Union together and, as such, ethically owed to lower-income citizens. Therefore, potential inequities in the treatment of equals would be due to Member States' autonomous political decisions, unrelated to citizens' State of residence. In other words: equal treatment for equals is a value superior to that of equalisation among organic State units (Buchanan, 1950: 591).

The question then becomes: why should federal financing supersede supranationally mandated standards to be implemented at Member State level? Federal financing focused on citizens would be better than the alternative because adjustments between people living in different Member States should be an EU-wide concern, as evidenced by the EU's principles of equality and solidarity. In fact, this dynamic is also visible within each Member State, which denotes that solidarity between citizens is a widespread value, not confined to a few States. Of course, this does not necessarily imply uniform benefits, on the one hand, or exclusive supranational administration, on the other[38].

Such an approach would entail several major advantages, by increasing foreseeability, transparency, effectiveness, the accuracy of citizens' expectations and the altering of inaccurate perceptions. First, it would detach potential future programmes that resemble Next Generation EU (NGEU) from the occurrence of emergency events, making them more likely to be foreseen and, as a result, enhancing the Union's economic stability. Second, it would favour

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powers between supranational and national governments is of paramount importance, in order to reduce intergovernmental competition of a vertical nature.

38 In fact, relative metrics could be used regarding benefits, such as purchase-power-parity. Regarding administration of programmes, cash payments could be dealt with supranationally, while other direct services could be administered locally. See Laad and Doolittle (1982: 328).

transparency, given that budgetary functions would not be mixed (i.e. in order to further certain EU policies, there would be no need to devise unrelated requirements, such as falling unemployment rates or GDP losses, as in NGEU, in order to provide some States with more funding) (Fuest, 2021: 91)[39]. Third, it would increase the effectiveness of the EU budget regarding its stabilisation function[40], while redirecting national budgetary resources to different areas[41]. Fourth, the mismatch between citizens' expectations and what is delivered by the EU is increasing, which means that indirect taxes will probably be insufficient to substitute current national contributions to the EU budget, *a fortiori* they will be unable to fund programmes such as NGEU or genuine EU policies. Fifth, it offers the ability to correct citizens' perceptions regarding inter-State financial relationships, namely dominance on the part of the most economically robust Member States and, conversely, subordination and guilt on less economically robust ones (Kumm, 2017)[42]. Finally, dependent on the definition of a clear set of competences between the supranational and national level governments, it would not over-harmonise economic policies with an encompassing top-down approach, thereby respecting diversity in the Union.

In order to bring this conceptual framework into place, however, one needs to take the EU budget's expenditure structure into account. As I have endeavoured to show, there is a fundamental link between the nature of

39 As Fuest argues, NGEU can be seen as a kind of insurance and redistribution mechanism, along usual national lines. In his view, "one third of it is insurance going to the countries most affected while the other two thirds is money going to countries that have had problems before or are poorer", therefore, hindering its European nature.

40 For instance, corporate and income taxes are less pro-cyclical than VAT. By moving more quickly than the economy as a whole, they relief households and firms in downturns. Furthermore, these forms of taxation are more readily adjustable to the economic cycle, ie they do not need to be paid by companies that are making losses. See Lindner and Tordoir (2020: 204). In addition, the co-financing rates of current EU regional policy hinder a stable funding flow in recessions, as national and regional governments may come under fiscal strain, leading to cancellations of the projects at large.

41 EU regional policy is frequently seen as being misaligned with national priorities. Therefore, national funds might be allocated to projects just because supranational funding is available. For instance, the committed funds for regional investment projects that materialised fell from 98.2 % in 2000-2006 to 62.09 % in the euro crisis period of 2007- 2013. This reduction suggests that a significant number of projects might not be a priority for Member States. From the point of view of respecting each State's spending priorities, unconditional grants to sub-national governments are a better alternative because they will be guided by local preferences and needs.

42 This specific point is very well explained by Kumm (2017: 142).

revenue and expenditure. If that is so, then the proposed change to the former should only be adopted if a change to the latter is adopted. Indeed, it would be incongruent and, ultimately, indefensible, to argue for direct taxes on EU citizens while maintaining the current spending structure.

2.2. *A generality principle for EU expenditure?*

In attempting to propose institutional changes to address minoritarian biases in EU economic and budgetary policies, it is necessary to keep in mind that the issue might not be tackled correctly. In other words, in my attempt to deal with the verticalisation problem, whereby national institutions and national interests are the primary focus, namely in the European Council, one needs to caution against the transfer of biases phenomenon from these institutions to other European institutions. For instance, some authors argue that the European Parliament should have a prominent, leading role in the budgetary process, including in the revenue realm, because they see this as embodying EU-wide legitimacy, hence bringing about an integrated view on the issues (Motte, 2014: 147; Lehner, 2020: 38).

Although conceivable, one should not take that conclusion as a straightforward way to resolve the issue. In fact, Members of the European Parliament (MEPs) have local constituencies and may be interested in Union spending for their constituents, especially if such expenditure has a high degree of visibility, hence neglecting spending on European public goods (Heinemann, 2016). Accordingly, we could merely be transferring biases from some institutions to others. In this case, such a transfer could very well be between minoritarian: from *juste retour* to so-called pork-barrel-spending associated with local constituencies in the European Parliament (EP). By primarily shifting our attention for this latter institution because of intergovernmentalism's shortcomings, we could not only fail to successfully address the underlying problem but also hinder democratic expectations. In fact, it could possibly exacerbate the issue regarding a "transfer union" and entrench the EP's nationalistic approaches over the supranational budget.

In order to counter the fear of the exploitation of the few over the many, there were proposals to largely maintain the current institutional system of competitive federalism, by keeping a decentralised power to tax concomitant with reverse revenue sharing (essentially, GNI-based funding). Drawing from the experience of the US, the main rationale is that "once a central government assumes significant control over the tax base of a community of subgovernments, it will invariably take on functions that are either best left to the subunits of government, or not worth performing at any level of government"

(Buchanan and Lee, 1994: 228)[43]. From this perspective, the case against an EU Government's power to tax is that this power has, historically, been frequently abused. Unless properly constrained, either formally or by competition, political power tends to overreach. Therefore, by confining taxation competences to the national level, special interest spending could be effectively prevented from spreading all over the Union.

Moreover, transferring the power to tax to the supranational level enables the forming and enforcing of a tax cartel, whereby additional revenue taken from different layers of government will do more than offset any reduction in collected revenue. On the other hand, a Federal Government capable of collecting significant revenue would see an increase in the demand of centralised spending from sub-national authorities, possibly directed towards areas of governance of the exclusive responsibility of the latter (Buchanan and Lee, 1994: 228).

However, reverse revenue sharing, as a way to keep autonomous national taxation power, has important limits in EU budgetary history, as the interpretation of national transfer and EU budgetary expenditure shows (Benedetto, 2019; De Feo, 2015). Indeed, projects with benefits that primarily accrue to the citizens of a certain sub-national or national jurisdiction should be approved and financed by their respective budgets. On the contrary, if the supranational level provides financing for local-added value projects, it would relieve national budgets from that expense but, most importantly, it would incur an opportunity cost from failing to provide community-wide benefits with these funds.

Hence, in order bring citizens and the Union closer, a generality principle should be attached to Union spending in order to ensure that majorities are required to approve expenditure able to generate value for every group of citizens, indistinctively, albeit in an indirect and diffuse manner (Buchanan and Musgrave, 1998: 26). In this vein, it is worth noting that most EU expenditures do not necessarily embody this direct link, as only a small portion of EU expenditure constitutes EU-added value spending.

Such a principle could substantially reduce minoritarian bias, either spending related to the allocation of funds or the stabilisation of the Union's economy. Moreover, it would improve institutional independence while deciding on expenditure and, importantly, better safeguarding the democratic process of a federation of States by establishing a connection between the nature of spending and revenue.

[43] The authors provide an exemplificatory list of projects proposed for federal funding in the past, the nature of which has been replicated over the years. In their view, the projects are only viable due to the political benefits accruing for local representatives.

If conceived in this way, the Union would be able to reconcile national and supranational interests, thereby expanding the scope of EU policies and favouring cross-national ideological majorities. Hence, citizens' support of the Union's decisions would not be limited to the right to vote, directly or indirectly, for EU representatives or leaders (Maduro, 2018: 355-356). These are necessary, but ultimately insufficient conditions. Rather, there is a need to develop what Weiler has designated a political messianism — that is the "promise of an attractive Promised Land" (Weiler, 2017: 365. In my view, in the context of the EU, a generality principle can better address output legitimacy as well as political messianism, just as the taxation of EU citizens can improve input legitimacy by leading to more quantitative (numbers) and qualitative (meaningful) participation in electoral and non-electoral moments in the EU public sphere.

Such a principle might not only counter minoritarian but also majoritarian bias. By its very nature, expenditure of this type would, necessarily, foster transnational divisiveness between citizens, as opposed to discord along national lines. Therefore, citizens' voice would not be confined to the national boundaries and economic might of their respective Member States. Rather, citizens would be in the minority or majority of ideology in the EU public sphere, which is more volatile than the economic indicators that currently define Member States' power.

Also, in this vein, EU expenditure would embrace two essential principles of fiscal federalism when placed in multinational contexts: non-centralisation and constituents' autonomy (Graefe, 2021: 112). Regarding the former, by restricting spending to a generality requirement, centralisation at the federal level would be more difficult to instigate, as States are diverse and have distinctive local preferences. However, non-centralisation does not adequately capture the way in which the public policy development process shapes the polity as a whole. In fact, the exercise of governing in multinational and multilevel systems, necessarily, entails an identity assumption by the Federal Government and, therefore, places hurdles in the way of dealing with minorities. A generality principle could ease this effect.

Nevertheless, non-centralisation is not enough to deal with majoritarian bias — the autonomy of constituent parts is essential as well. This means that European economic governance increasingly constrains Member State autonomy concerning the exercise of economic policies. In multinational and multilevel contexts, autonomy is necessary in order to address different national societal needs. Accordingly, it is important for the different component units to be able to freely exercise their internal constitutional competences, unconstrained by the centre of the federation.

This circular dialogue between generality and stabilisation policies based on EU citizens, on the one hand, and non-centralisation and autonomy, on the other hand, should be the basis of the relationship between the Union, its Member States and their people. From the outset, EU integration has been shaped by these latter concepts. In other words, the budget should be maintained at a reduced level and Member States should be able to define, implement and execute their own economic policies largely autonomously. This approach was reversed during the financial and euro crisis, when the opposite emerged. In fact, EU economic governance became an exercise with a significant degree of administrative centralisation and dependence on supranational authorisations, depending on the level of financial distress experienced by different States.

Finally, EU expenditure would be supported by taxes decided at supranational level and paid for by EU citizens, thereby establishing a more adequate framework for debate from a fiscal and democratic standpoint. A Union of proxy politics is, indeed, the way to grasp the promised land, given the difficulty in aiming for great results from a small (nation-State) perspective in an interconnected world. Importantly, however, such proxy politics can only be initiated, from my point of view, if there is an adequate fiscal and budgetary framework to provide an adequate basis for dialogue.

V. CONCLUSION

Intergovernmentalism has come to the forefront of EU economic governance management since the financial crisis. Significantly, the solutions put in place by the EU to counter the impact of such fallout introduced a strong unitary element: a top-down and bottom-up relationship with its Member States I designate the verticalization of the Union.

In fact, the EU progressively set up a system of supranational public control and financial assistance, where Member States autonomy over economic policy got substantially restricted. This constitutes a paradox of EU integration because this area has been a cherished national competence to preserve diversity and national identity. In a word: it hinders the nature of the EU as a political project of aggregation of previously independent States.

Moreover, the ECB intervened in Member States' debt markets by purchasing vast amounts of securities. It also developed selective policy responses. This approach increased dependence on the Central Bank and hindered the conception of single monetary policy. These pro-active stances hamper the principles of prohibition of monetary financing and the independence of the central bank, some of its cornerstones.

This contrasts with the static nature of the EU budget, the inertia of which is connected with the intention to keep economic and fiscal policies at the national level. Although progressively changing, this choice is reflected in the nature of funding and expenditure of the EU budget, both of which are focused mostly on Member States and less on the deliverables expected by EU citizens.

These elements help us understand that the institutional choices made in the EU led to a complex distribution of interests and power. The EU political process generated an institutional landscape with misplaced elements of legitimacy and accountability, thereby nurturing disfunction. I therefore consider that the limits of intergovernmentalism have been reached and that the EU should not persist on a path that only works when favourable economic, financial and political conditions exist. Thus, the Union will need to craft institutional alternatives to the ECB as main *de facto* financier of Member States as well as to the complex system of macroeconomic surveillance that has been intensified since the financial and euro crises.

In order to adequately address this issue, I argue it is essential to enhance the democratic credentials regarding the financing of the Union. To this end, I propose to adopt a direct tax on income of EU citizens, directly accruing to the EU budget. Significantly, underpinning this proposal is the idea of a Union of citizens, bound together by the EU budget.

Indeed, the EU already holds a wide enough competence to lay and collect taxes to finance its budget, including direct taxes on EU citizens. However, the problem is more related to the political environment influencing the interpretation of art. 311 TFEU than to constitutional hurdles. In this vein, a restrictive approach is consistent with the intergovernmental method of EU economic policy. Be that as it may, EU citizens hold a double capacity in their exercise of constituent power, as citizens of their Member States and the Union: displaying a legitimating role of different democratic levels.

Importantly, citizens will only accept democratising revenue if the nature of expenditure changes. The EU budget traditionally focuses on redistributive policies, mostly agriculture and cohesion. Although these policies may deliver some EU-wide benefits, they are increasingly misaligned with current societal needs, such as the euro-crisis, COVID-19 and, recently, the war in Ukraine. Therefore, a generality principle is proposed for Union spending, to ensure that majorities are required to approve expenditure that is able to generate value for all groups of citizens, indistinctively. Adopting such a principle would achieve three main objectives: substantially reducing minoritarian bias, improving institutional independence while deciding on expenditure and establishing a connection between the nature of spending and nature of revenue.

In this vein, the EU budget is a way to ensure the economic pluralism of the Union and deal with legitimacy issues. It is tailored to internalise the externalities of Member States' economies and, given that it is a product of the legislative process (the annual budget), it is suitable to address legitimacy issues.

If conceived in this way, the Union would be able to reconcile national and supranational interests, thereby expanding the scope of EU policies and favouring cross-national ideological majorities. Consequently, expenditure of this type would foster transnational divisiveness between citizens, as opposed to discord along national lines. In a word: citizens would be connected to the EU through Member States and despite them, what I designate as horizontalisation of the Union.

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