

# **Towards a More Perfect (Fiscal) Union Through Ear- Marked Revenue**

## **Lessons for Europe From the United States in Developing Continental-Scale Fiscal Institutions**

Jacob Funk Kirkegaard  
Senior Fellow

# Agenda



- I. What American Fiscal History Does Not Teach – The “Limited Lesson”**
  
- II. How Does U.S. Government Raise Resources from a “Tax Reluctant Population”?**
  
- III. Earmarked EU Revenues – Why and How?**

# I. The Limited U.S. Lesson



**EU/Euro area will not for the foreseeable future.....**

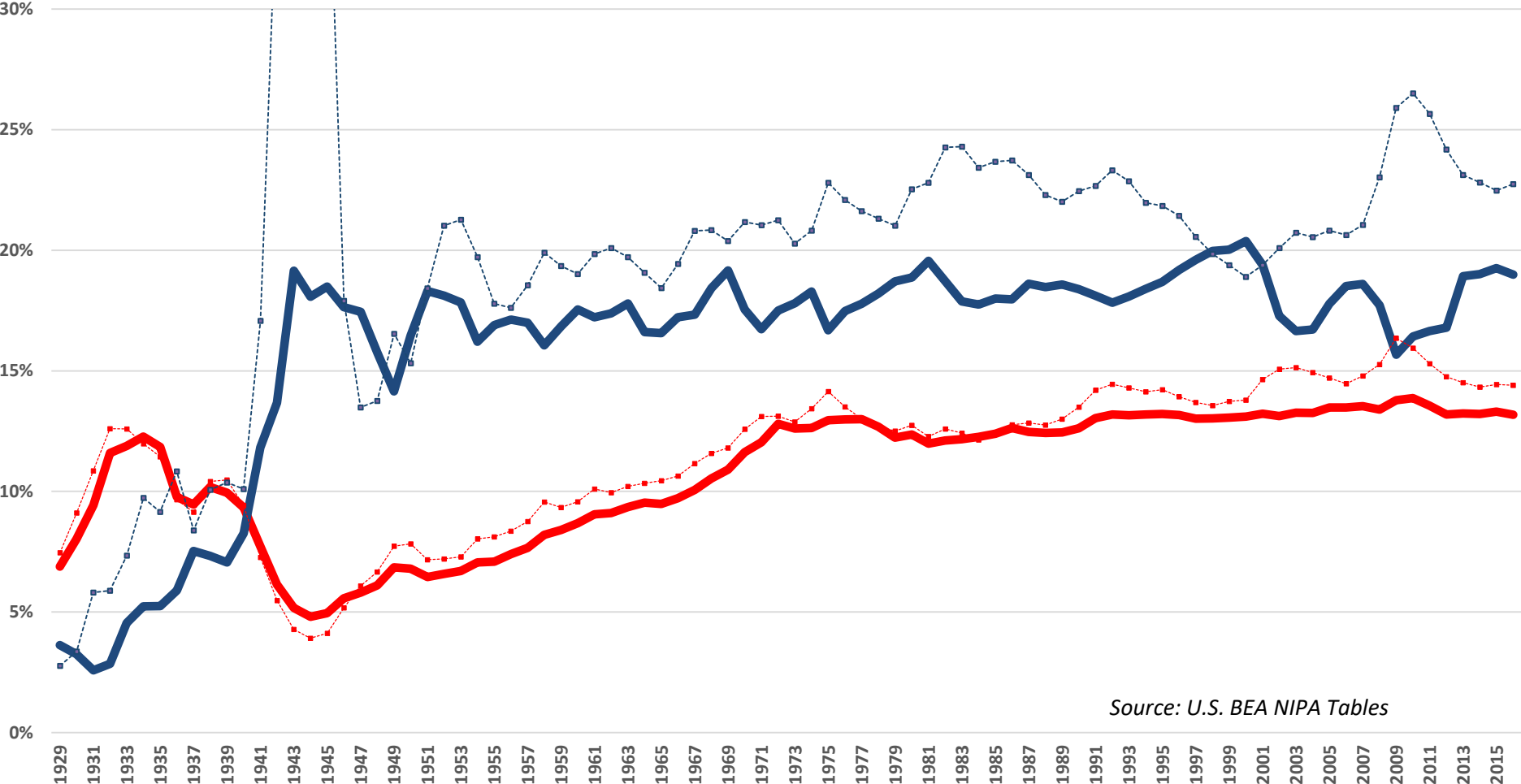
- become a political federation = **No federal budget**
- fight wars = **No incursion of large amount of common debt from “common national struggles”**
- develop a “dominant national identity” = **no direct income taxation**

# II. USG Revenue Collection



U.S. General Government Total Receipts and Expenditures, By Level of Government, 1929-2016, % of GDP

State/Local Gov Receipts   Federal Gov Receipts   State/Local Gov Expenditures   Federal Gov Expenditures



Source: U.S. BEA NIPA Tables

# II. USG Revenue Collection



## U.S. Federal Government:

Over 1/3 of total federal government revenue come in the form of earmarked “trust fund revenue”

Vast majority of trust fund revenue go towards social insurance

Beyond social insurance, US federal budget relies on trust funds for wide range of government tasks

And.... USCIS largely funded by “taxes (fees) on foreigners”

<b>U.S. Federal Government Trust Fund Revenue, FY 2016, \$US Billions Unified Budget Receipts</b>	
<b>Federal Funds (UST General Fund)</b>	<b>2,089 (64%)</b>
<b>Trust Funds</b>	<b>1,179 (36%)</b>
Old-Age and Survivor Insurance (OASI)	655,145
Hospital Insurance (HI)	243,546
Disability Insurance (DI)	142,512
Unemployment Insurance Trust Fund	49,874
Transportation (Highway Trust Fund)	41,323
Airport and Airway Trust Fund	14,352
Rail Road Retirement and Pension Trust Fund	3,380
Supplementary Medical Insurance (SMI) Trust Fund	2,969
Aquatic Resources Trust Fund	542
Oil Spill Liability Trust Fund	530
Black Lung Disability Trust Fund	525
Patient-Centered Outcome Research Trust Fund	322
Vaccine Injury Compensation Trust Fund	311
Leaking Underground Storage Tank Trust Fund	212
Inland Waterway Trust Fund	107

*Note all individual trust funds provide revenue data on a unified basis, so sum does not equal \$1,1179bn, but only \$1,156bn. Source: OMB*

# II. USG Revenue Collection



## U.S. State

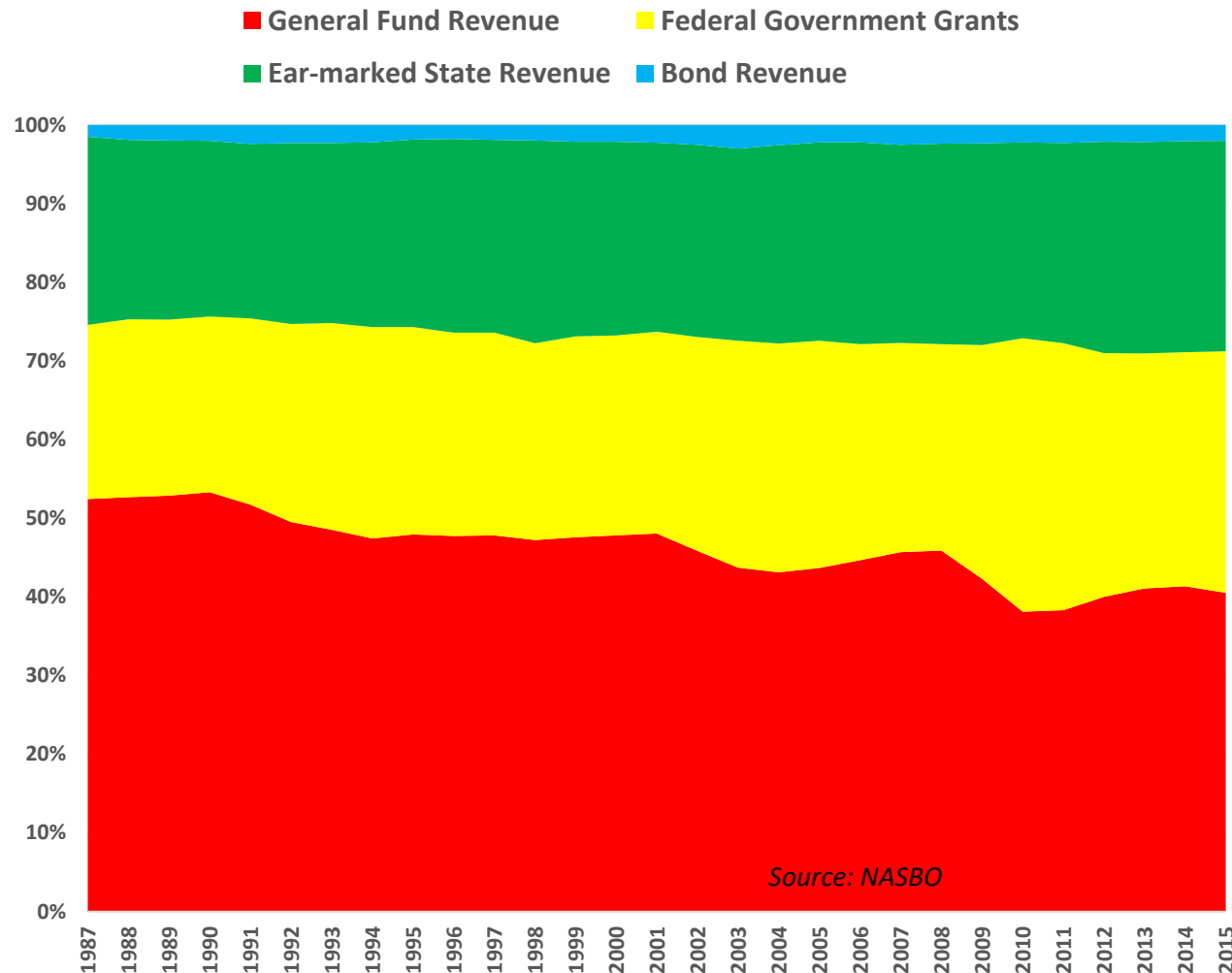
### Governments:

Direct taxes account for just about 40 percent (and falling) of state government revenues

Federal government grants and ear-marked funding each account for about 30 percent (and rising) of state government revenue

Elected US state officials have very limited control of the majority of the revenue they “supposedly control”

Total U.S. State Spending by Revenue Source, 1987-2015, Percent of Total



# Earmarked EU Revenues – Best Budget Option for Now?



- EU budget currently trapped in **zero-sum “national net budget contributions” discourse** similar to U.S. pre-XVI Amendment of 1913... and Brexit will not solve it
- U.S. political experience implies that ear-marking revenue makes **voters more likely to support such new taxes**
- With voters’ self-identity/allegiance at member state level, **single ear-marked tax for single public service** may be EU’s only avenue to raise indirect tax/fee revenue at the continental level
- Simpler and therefore democratically **more legitimate than current complex “backroom” budget process**
- Ear-marked revenues could allow the EU to add new policy areas of responsibility in a timely manner and let **“Europe grow based on merits” of regional vs. member state level solutions**

# Earmarked EU Revenues – Some Suggestions



**Tax Foreigners:** Like ESTA-visitors to U.S. (\$14 fee), visa-free visitors (incl. UK post-Brexit) will soon pay a € 5 ETIAS fee to enter Schengen, but why not:

1. Direct most/all fees for all visas to Schengen directly to the EU to fund external border control
2. Direct most/all member state revenue from sales of EU citizenships to the EU to fund external border control
3. Institute a € ? Entry fee to enter Schengen to the EU to fund external border control

**Explicit User Fees:** Polluter-Pays Principle is currently used to fund Banking Union and ESMA supervision – can be expanded to most kinds IM regulations, but recent DG Budget proposal for “plastic tax” ≠ ear-marked revenue

**Fees on Related-Use Items:** HTF-like EU structures to finances infrastructure through gas/power taxes, climate mitigation through ETS revenue, or Macron’s FEMA-like “Civil protection force” via fee on insurance policies

**Ear-marked VAT Proceeds:** Ear-marking VAT proceeds is an – in principle - highly flexible budget instrument... CAP to be funded by special food VAT?