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PRINCIPAL – AGENT RELATIONS IN EU BUDGET RESOURCE COLLECTING

Summary: EU budget resources are collected in respect of rules set up by the financial regulation. From EU's point of view, it is a relatively simple procedure, contributions being based on Member States' reporting, which is obtained by aggregating data from taxpayers. This mechanism generates a two-level information asymmetry, risk being accounted for by means of agency theory. Thus, we have two different principal – agent relations: European Commission – Member States and Member States – taxpayers. We propose to present the main risks regarding information asymmetry, especially in the relation with New Member States, and evaluate the introduction of an authentic own revenue administered directly by EU institutions.

Keywords: agency theory, EU's own resources, information asymmetry.

1. EU's own resources

EU's own resources are established by Council Decision No. 2007/436 on the system of the European Communities' own resources. These own resources will finance all the expenditures approved in EU budget, maintaining the equilibrium of this budget. The own resources of EU budget are grouped in three major categories, corresponding to current vision at EU level: traditional own resources, own resource based on value added tax, and resource based on gross national income.

Traditional own resources consist of levies, premiums, additional or compensatory amounts, additional amounts or factors, Common Customs Tariff duties, and other duties established by the institutions of the Communities in respect of the trade with non-member countries, customs duties on products under the expired Treaty establishing the European Coal and Steel Community as well as contributions and other duties provided for within the framework of the common organisation of the markets in sugar. The own resource based on value added tax is obtained by the application of a rate to the harmonised VAT assessment bases, determined according to Community rules – the base without exceeding half of GNI for each Member State. The resource based on gross national income is based on the application of a uniform rate to the sum of all the Member States' GNIs, a rate which is calculated according to uncovered financing. The rate between traditional own resources and the revenues funded by Member States is 1/5.66 (15% traditional own revenues and 85% revenues funded by Member States) [Leen 2010].

EU's own resources are made available to the Commission by Member States in accordance with Council Regulation No. 1150/2000 implementing Decision on the system of the Communities' own resources. This mechanism is specific to an indirect system of collecting revenues, EU budget having no authentic own revenue.

EU authentic own revenue issue is wildly discussed by scholars and practitioners. Le Cacheux [2005] makes a distinction between own revenue and national contributions. Begg [2009] analyzes this problem in correlation with fiscal federalism, distinguishing different approaches when EU taxpayers are considered Member States, respectively common taxpayers whom payments are redirected partially to EU budget by Member States. Gros [2008] considers that domination of GNI resource in flat contradiction with EC Treaty, which states that "the Union shall be financed wholly from own resources". In their study, Begg et al. [2008] proposed an introduction of an EU tax or non-tax beginning with 2013 of at least 25% from budgetary revenues. Additionally, new EU taxes should be established since 2020.

The shortcomings of the current system of own revenues have led to the initiation of discussions on the reform of EU budget revenues. The reform is needed because the whole system is not working properly from the rational and economic point of view [Becker 2007]. A new EU own revenue is hard to find because it should respond to at least eight criteria related to efficiency, equity, and budgetary issues [Cattoir 2004]. Financial analysis should take into account the fact that EU has monetary union without a fiscal union (as part of the "double asymmetry") [Gustavsson 2008].

2. Agency theory

Agency theory is widely used to explain economic issues when an information asymmetry occurs between the two parties participating in a transaction. This process is specific when certain responsibilities are delegated by responsible entities to other structures to fulfil on their behalf. Although this theory was developed for the private sector, more and more studies apply it successfully for those relations where parties are represented by public structures. Public sector agency theory is becoming a separate theory due to numerous and major specificities existing in the public sector.

The two subjects (or groups of subjects) are represented by the principal and the agent. From the economic point of view, the principal is that entity which benefits from the action took by the agent. From financial point of view, the principal usually pays for services offered by the agent. The agent overtakes a part of principal's responsibilities, often in exchange for benefits or obligations regulated by juridical acts. The specificity of these relations depends on agent's holding a larger amount of information than the principal does because it is closer to everyday management of delegated activities. This information asymmetry generates an advantage for the agent, which can be exploited to the detriment of the principal. The agent's concern for exploiting information asymmetry is explained by its desire to maximize one's own wellness, often translated into maximizing revenues obtained from principal for delivered services.

Analyzing EU issues from the agency theory perspective is not a novelty. A comprehensive study was made by Pollack, who analyzed several EU institutions and the principal – agent relations in which they are involved [Pollack 1997]. The relation between European Court of Justice and Member States was subject to debate by Andersen and Glencross [2007]. Delreux [2007] studied both the European Commission's and the Member States' relation in multilateral environmental agreement. Eugénia da Conceição-Heldt [2009] revealed the agency losses (agency shirking and agency slippage) in the process of power delegation in EU trade policy. The EU as a major international organization was presented by Vaubel [2006].

3. Commission and Member States in principal – agent relation

Principal – agent relations in the EU could be analyzed from two points of view: as an international organization [Shapiro 2005] or as a federation [Joerges 2009]. The second seems to gain ground as a result of recent trends in EU approach. Also our opinion is closer to the federal point of view because the scale of financial flows between the EU and Member States exceeds a usual relation between an international organisation and its member.

EU budget resources are collected in respect of the rules set up by the financial regulation. From EU point of view, it is a relatively simple and cheap procedure, contributions being based on Member States' reporting on main macroeconomic indicators (i.g. GDP, GNI) or other specific statistical data.

In order to mitigate the information asymmetry between European Commission and Member States, Eurostat developed unitary procedures used in collecting, processing, and reporting the statistical data used in calculating contributions to EU budget (approved as Council Regulation No. 2223/96 on the European system of national and regional accounts, Council Regulation No. 1287/2003 on the harmonisation of gross national income at market prices, Council Directive No. 1553/1989 on the definitive uniform arrangements for the collection of own resources accruing from value added tax etc.). Eurostat's procedures are incorporating the latest international standards, including those regarding transparency.

Member States adopted these reporting requirements and imposed them to their own taxpayers when periodical reports are sent to national fiscal administration. These data are used to establish the financial contribution of a Member State to EU budget. The aggregated data obtained by processing reports from taxpayers are frequently flawed by inaccurate information explained with numerous practical justifications: material errors, tax evasion, misinterpretation of the fiscal law, ambiguity in the legislative text, and so on. In this way, information asymmetry is taken over from the national level and retransmitted to the EU together with information asymmetry generated by the EU – Member State relation.

The mechanism of making available own resources requires each Member State to credit the account opened in the name of the Commission with its Treasury or the body that it has appointed. The traditional own resources are credited as they are collected, while the VAT and GNI resources are made available to the Commission on the first working day of each month [Matthijs 2010]. In this manner, EU own resource availability is left to Member State's latitude, giving opportunity to manifest the information asymmetry. The control done by the principal could not eliminate the associated risks entirely.

4. Member States and taxpayers in principal – agent relation

Member States have a responsibility to organize national level tax collecting, including those resources which will be redirected to the EU budget. Partly, these services are remunerate, while others not. In the first category, one includes the majority of own resources, each Member State retaining 25% of collected amounts to cover the costs of administrating them. This transfer of collecting responsibility can be translated into a principal – agent relation where the Commission is the principal and Member States are the agents.

The principal's control on the gents is made in different ways, no one covering all operations because these would be excessively costly. The information asymmetry becomes a vital element, which should be controlled and minimized. There are several ways to do it, but we should analyze them in correlation with the costs implying these methods.

The regulations regarding the EU budget own revenues' calculation aim for a unitary and nondiscretionary implementation. Norms are not enough to assure the control of information asymmetry. A different kind of reporting should be controlled strictly to avoid misreporting. The data used in establishing EU own resources are based mainly on fiscal declarations and financial reports. There is a permanent temptation for those obliged to report those financial data because it generates also financial obligations to the reporting entity. The behaviour of taxpayers (firms and households) could be supposed as asymmetric in relation to government [Bouthevillain, Dufrénot 2010]. Furthermore, some Member States applied some EU regulations in their own way, harming the EU budget.

This second level principal – agent relation is identified between Member States' national institutions and their taxpayers. In this situation, the complexity of problem resides in their accuracy and the management of large number of reporter units which contribute in obtaining aggregate data.

Taxpayers' reports are set up, overwhelmingly, by taxpayers themselves on their own responsibility. Fiscal control appears only randomly and cannot eliminate misreporting. The cause of misreporting could be a non-discouraging penalty system or the complexity of fiscal system.

The management of hundreds of thousands or millions of reports is quite a problematic issue. Usually these reports are prepared in a short time after reporting period is ended, the deadline being identical for all reporters. These could lead to numerous misreports and an overload of receiving platforms.

A Member State's aggregate report to the Commission includes all the risks faced by the Member State's tax administration in their jurisdiction. The most notable risk met in Central and Eastern Member States is corruption. As long as the Southern, Balkan, and Baltic EU countries are perceived as the most corrupt, not only in the UE, but also in the worldwide classification [Braşoveanu, Obreja-Braşoveanu 2009], the pretension of the Commission to obtain accurate financial data from these EU Member States is too optimistic.

The co-ordination between OLAF and similar national structures is a solution which cannot resolve the problem because in New Member States these institutions have no tradition and the staff is too small in comparison with potential problems that they should investigate. National anti-fraud structures are regulated at Member State's level without targeting best way to manage EU funds. For example, in Romania, despite the best efforts of the actors involved, a fragmented legal system and institutions have hampered the fight against the fraud on EU funds [Quirke 2009].

5. Possibilities of reducing the information asymmetry

The double principal – agent relation in collecting EU budget revenues has numerous disadvantages as described in the previous sections. These disadvantages are balanced by the reduced costs supported directly by the Commission. The decision on the system of the Communities' own resources establishes a compensation of Member States' collecting costs only when revenues are collected disproportionate.

We claim that an authentic own revenue for the EU budget would represent a solution which could reduce significantly the information asymmetry. Eliminating Member States from this relational chain would be beneficial, even costs supported from the EU budget will be higher, but lower in Member States. But in this case, the costs should be analysed by summing the two costs (those of EU and Member States) because both of them are public spending which should be covered by European taxpayers.

Reducing the EU – Member State – taxpayer chain contributes directly to reduce the information asymmetry and improve efficiency. The decision on introducing a genuine own revenue should be adopted after a schedule which permits a proper development of own revenue collecting network across EU Member States.

Introducing an authentic own revenue will not resolve entirely the information asymmetry problem. It would be recommended to choose a tax which will be collected from a small number of EU taxpayers. It will be important to manage the impact of geographical factor over the information asymmetry because the dimension of the EU will represent a barrier for optimal collecting revenues to the EU budget.

The reticence for introducing a genuine own revenue and developing an EU fiscal network is partly explainable by the lack of similar structure. EU institutions are usually small institutions which have a head office and rarely a small number of secondary offices. But, to introduce an EU tax office, the scheme should be radically different. Such offices should be set up in all Member States (probably in many of them several different offices) and should deal with several different currencies.

The panacea for reducing the information asymmetry is represented by a system which is designed under transparency and simplicity conditions. A direct relation between tax beneficiary and taxpayer is more recommended than the multi-level institutional schemes based on different types of subordination.

From the financial point of view, it would be important to have a single fiscal area with a single currency. Until recently, the generalization of the single currency would have been recommended. Under the economic development of the latest years and months, eurozone enlargement is not an urgent issue on the agenda.

Our opinion related to the possible solutions for a information asymmetry reduction is to find an EU genuine own revenue which should be collected from a relatively small number of taxpayers. Recently, the most discussed proposal has been a tax paid by financial institutions. We sustain such a proposal because it is the most suitable from all the proposals coming from scholars or practitioners.

6. Conclusions

The EU budget has no authentic own revenue because these funds are collected mainly by Member States. This system creates the information asymmetry between the Commission and Member States, generating situations when details from financial regulations on EU budget revenues are implemented differently by different Member States.

The information asymmetry is deepening also as an effect of principal – agent relations existing between Member States and their taxpayers. The majority of taxpayers establish their debt to public budgets (including EU budget) on their own responsibility, being tempted to misreport or being in impossibility of assimilating entirely the fiscal rules imposed by regulations.

We consider that a better management of the information asymmetry could be resolved by introducing an authentic own revenue for EU budget collected by an institution belonging to the Commission. In this way, the national features could be dealt with by the same rules, limiting the manifestation of preference for certain undesired actions such as corruption. It would be a proper measure to mitigate the procedure difference between New and Old Member States.

In the present economic environment in Member States, further research studies should focus on the possibilities to introduce new reforms related to an EU genuine own revenue or euro area enlargement. Designing a new tax which should be paid by companies from such a big area is a real challenge for the EU.

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RELACJE AGENT – PRYNCYPAŁ W PROCESIE GROMADZENIA UNIJNYCH ŚRODKÓW BUDŻETOWYCH

Streszczenie: Unijne środki budżetowe gromadzone są w oparciu o zestaw reguł ustanowionych przez odpowiednie regulacje finansowe. Ze wspólnotowego punktu widzenia jest to względnie prosta procedura, a wysokość skladek oparta jest na sprawozdaniach prezentujących zagregowane wpływy podatkowe. Mechanizm ten powoduje jednak dwupoziomową asymetrię informacyjną, gdzie ryzyko może być wyjaśnione przy pomocy teorii agencji. Mamy więc dwa rodzaje relacji pryncypał – agent: Komisja – kraje członkowskie, kraje członkowskie – podatnicy. W artykule zaprezentowano główne czynniki ryzyka związane z asymetrią informacji, szczególnie w stosunku do nowych krajów członkowskich.