ECONOMY AND ECOLOGY 15.10.2026 | Jonathan Schnock

An ever poorer Union?

Europe's next budget is caught in a tug-of-war between national interests. But there is an alternative to cuts: making new sources of revenue work

'Don't tell me what you value, show me your budget, and I'll tell you what you value.' — Joe Biden, citing his father

Negotiations on the EU's 2028-34 budget are entering a critical phase this week, with tensions running high over its size and priorities. Calls to reduce the budget have been gaining traction. On Saturday, the Irish Council Presidency published its controversial 'negotiation box', a document setting out the issues still to be resolved at political level and proposing a compromise that would bring the budget down by more than €140 billion compared with the EU Commission's original proposal. The European Council will use this as the basis for discussions when EU leaders meet on 15 and 16 October.

But cutting the budget is not the only way to resolve the dispute over how much the EU should spend and who should pay for it — and it would not come without a cost. To understand where the negotiations stand, what alternatives are available and why any of this matters in the first place, it is worth taking a step back.

The Commission presented its proposal for the Multiannual Financial Framework (MFF) in July 2025. At €1.76 trillion, compared with €1.27 trillion for the current MFF, it quickly became the focal point of criticism, particularly from countries that consider it too large.

However, the headline figure tells only part of the story. The EU must also repay the €800 billion in debt incurred to finance the post-pandemic economic recovery through the NextGenerationEU instrument. Once these repayments are taken into account, the Commission's proposal seems less dramatic than the 'two trillion euro' headlines suggest. In fact, compared to the current MFF, it would increase the EU budget only marginally, from 1.13 to 1.15 per cent of the EU's gross national income (GNI) available to finance old and new priorities.

A rift in the Council

In one corner of the Council ring are the 'frugals', who fight to see the EU budget cut. Germany and its parsimonious, net-contributing allies – Austria, Denmark, Finland, Sweden and the Netherlands – have demanded a reduction of several hundred billion euros. More recently, German Chancellor Friedrich Merz even claimed that 'not having an MFF is, by far, the most financially favourable solution for Germany.' Their main concern is the expected jump in contributions based on GNI, by far the EU budget's largest source of revenue. The reasoning goes that any increase would, in turn, leave national governments with less money to spend at home, at a time when many are already making cuts after years of successive crises. They also favour a simpler, more flexible budget focused on security, competitiveness and innovation.

However, while contributions are indeed set to rise, the scale of the increase needs to be put into context. Because inflation has outpaced the fixed two per cent deflator in the current MFF's ceilings, the budget has, relative to the economy, shrunk, which led to lower GNI-based contributions than originally anticipated.

In the other corner of the ring are the 'friends of cohesion' — Bulgaria, Croatia, Cyprus, Czechia, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and Spain. They strongly oppose cuts to the budget and want to maintain funding for priorities such as Cohesion and the Common Agricultural Policy. The rift between the two camps is thus a battle over how EU funds should be distributed that runs to the core of Member States' self-interest.

The political calendar of 2027 adds to the pressure to reach an agreement, and quickly. Upcoming elections in several Member States pose a risk to successfully wrapping up the budget talks. In particular, a victory of the Rassemblement National in France, whose candidate Marine Le Pen wants to slash contributions to the EU, would risk derailing the negotiations, as the MFF requires unanimity in the Council. The longer the talks drag on, the less likely a compromise becomes. This is one of the main reasons EU leaders have set themselves a deadline of the end of 2026.

Finding the magic formula

There is a way to overcome the impasse between the two camps. The key to unlocking a well-funded budget while keeping GNI-based contributions low lies in opening up new streams of revenue for the EU

coffers. In its MFF proposal, the Commission suggested five new own resources to complement the existing ones (customs duties, VAT-based contributions, unrecycled plastics, GNI-based contributions): 30 per cent of revenue from the Emissions Trading System (ETS1); 75 per cent of revenue from the Carbon Border Adjustment Mechanism (CBAM); a resource based on uncollected e-waste; a tobacco excise duty; and a corporate tax on big companies. Additionally, the Commission proposed adjusting traditional own resources to channel more money into the EU budget. Taken together, these measures would generate about €58 billion annually (in 2025 prices).

With these additional sources of revenue, GNI-based contributions would still rise, but less than the 'frugals' fear. However, all the proposed new own resources except CBAM revenue met resistance in the Council. Some would place an additional burden on national budgets on top of GNI contributions, merely based on a different metric (as with the e-waste levy). Others would place a disproportionate financial burden on certain Member States

In April, the European Parliament thus put forward three new own resources: a levy on online gambling, a contribution linked to crypto-assets and a levy on digital services. Member States have largely ignored these proposals, citing administrative difficulties and, in the case of a digital services levy, fears of retaliation from the US.

The debate over new own resources should not be reduced to a question of how much revenue they can generate. From a progressive perspective, they should be assessed against other criteria that can help make the EU's revenue system fairer and more sustainable.

Rather than working together to agree on additional own resources that could make budget cuts unnecessary, Member States seem stuck in a debate over the size of the MFF and how its costs should be shared.

Firstly, any new own resource should have a European dimension. It should target cross-border activities where EU-level intervention adds value and supranational management can create efficiencies. ETS1 (with an estimated annual revenue potential of €9.6 billion) and CBAM (€1.4 billion) serve as good examples, as both are clearly European in scope.

Secondly, new own resources should have a positive effect on society or the environment. In other words, they should help steer behaviour by making harmful activities more expensive. Possible candidates include Parliament's proposed levy on online gambling (€1.9 billion) and a levy

on flight tickets based on carbon emissions (€4.8–6.7 billion).

Thirdly, distributional effects matter. The GNI-based resources heavily rely on taxes on labour and consumption, which disproportionately affect middle- and lower-income groups. Shifting the burden towards undertaxed sectors such as digital services (€5-33 billion) would be a step towards a fairer system. Alternatively, ultra-high-net-worth individuals, who are often taxed at a lower effective rate than people with average incomes, could be made to pay their fair share through an annual two per cent minimum tax (€39-67 billion).

As these examples show, it is possible to identify own resources that meet these criteria. In fact, many more options have been discussed by researchers and think tanks.

The 'frugals' argue that own resources cannot close the funding gap. Yet, additional annual revenues of €61.7 billion to €119.6 billion are possible. Even excluding the wealth tax, which accounts for the lion's share of this, the sums involved are far from negligible: €22.7 to €52.6 billion.

Ultimately, the revenue potential would depend on the level of political ambition in setting the tax base and rates. But it is exactly this ambition that is lacking. Rather than working together to agree on additional own resources that could make budget cuts unnecessary, Member States seem stuck in a debate over the size of the MFF and how its costs should be shared.

Walking the talk

In May, Friedrich Merz stated that 'Europe has set out to become a force to be reckoned with.' Furnishing the EU with the resources to become such a force should be a logical consequence. Paradoxically, the 'frugals' seem to draw the opposite conclusion. It is unclear how the EU can defend its position against an increasingly adversarial United States and an ever-more powerful China with a limited operating budget, or maintain its leadership in development cooperation with severely reduced funding.

The same applies at home. The EU needs funds to strengthen regional cohesion and help innovative companies scale up. Cutting regional funding risks strengthening the far right by reducing projects that improve citizens' everyday lives. In times of fiscal constraints, Member States are unlikely to pick up the tab, which will lead to more disparities and disenfranchisement. Underinvestment in innovation will also leave the EU further behind in future technologies and more dependent on

third countries.

New own resources that meet the aforementioned criteria could break the Council deadlock and offer both camps a way forward. Beyond the negotiating table, a well-funded MFF would enable the EU to deliver for people at home and abroad. A smaller budget, by contrast, works against its own interests.

When the European Council meets this week and likely fails to agree on new own resources, we should remember that this is a political choice. So is cutting the budget. On a more positive note, when EU leaders are finally ready to move beyond narrow national self-interest towards a more competitive and social Europe, the solution is already on the table.



Jonathan Schnock
Brussels

Jonathan Schnock works as a policy officer at the Friedrich-Ebert-Stiftung, covering economic and digital policy as well as social Europe. Previously, he worked at the European Parliament and the College of Europe. He holds degrees in International Relations and European Studies from the universities of Osnabrück, Dresden and the College of Europe.