Bigger Without Losing Better

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Bigger Without Losing Better: A Fiscal Solution to EU Enlargement

The question of whether the European Union should be "bigger or better" implies a trade-off between enlargement and efficiency. However, enlargement in itself does not undermine the quality of integration; rather, the lack of instruments to manage its consequences creates political and institutional tensions.

A key constraint that creates such tensions is the EU budget. Despite its small size in macroeconomic terms and as a percentage of GNI, it is the central redistribution mechanism and, consequently, a major source of conflict between Member States. As a result, even small fiscal changes can acquire great political significance.

The Politics of Redistribution

The EU budget is structurally redistributive. Richer member states contribute more than they receive, while less developed economies benefit from cohesion policy and agricultural transfers. Enlargement introduces new beneficiaries into the system, thereby changing the distribution of resources.

Consider the case of a large participant such as Ukraine. Estimates show that it could become a net recipient of around €18–19 billion per year under existing budgetary structures1. This would require increased contributions from net contributors such as Germany, France and the Netherlands, as well as reduced allocations to current beneficiaries in Central and Eastern Europe.

However, the macroeconomic impact remains limited. For Germany, for example, an additional contribution of around €4.6 billion would correspond to around 0.11–0.12% of GNI. Comparable figures apply to France and Italy. These figures are fiscally manageable. The political challenge arises because these changes lead to significant shifts in national net balances. A country whose net contribution increases significantly, or which moves from a net recipient to a net donor, perceives this not as a minor adjustment but as a structural loss.

The central problem of enlargement is therefore not availability but distribution. Without mechanisms to manage these distributional impacts,

even economically and politically rational enlargement may become politically impossible.

Lessons from 2004

The 2004 enlargement offers important insights into how the EU has historically dealt with such challenges. The Union relied on a set of pragmatic mechanisms that effectively smoothed the impact over time.

The most important of these was the gradual introduction of financial transfers. New member states did not gain full access to agricultural subsidies or structural funds immediately upon accession. For example, under the Common Agricultural Policy, direct payments were initially set at around 25% of the level received by existing members and gradually increased over a period of up to ten years. In addition, absorption capacity acted as a natural spending constraint. Structural and cohesion funds could not exceed a certain share of a country's GDP, which limited the speed at which new members could use EU resources. Transitional arrangements in other policy areas further reduced the pressure for adjustment and allowed integration to proceed gradually. Most importantly, these measures were not part of a single framework. They emerged from political negotiations and were applied on a case-by-case basis2.

This approach was effective in the specific context of 2004, but it relied heavily on a favourable political climate characterised by strong post-Cold War support for integration. Today, enlargement is taking place in a more contentious fiscal and political environment, where Member States are more sensitive to even small changes in their budgetary positions. Moreover, there are almost twice as many Member States as in 2004, and decisions on the accession of new members still require unanimity.

1 Michael Emerson, "The Potential Impact of Ukrainian Accession on the EU's Budget – and the Importance of Control Valves", International Centre for Defence and Security

2 Cinzia Alcidi and Eulalia Rubio "What will the budgetary costs of the EU's next enlargement be? Weighing global uncertainty, rules, politics, and lessons from the past", SUERF Policy Brief, No 1145

In order to address the budgetary problem highlighted, we propose a fiscal impact cap rule that would introduce a double threshold designed to take into account both the economic and political aspects of the fiscal impact. It could be embedded in the EU budgetary framework, in particular in the Multiannual Financial Framework and its implementing provisions.

In practice, this rule would act as an ex ante allocation cap to be applied by the European Commission when preparing the multiannual financial framework after enlargement. Before adopting a new financial framework that would include additional Member States, the Commission would have to model the distributional impact of enlargement on all existing Member States and verify compliance with the two thresholds.

First, the net budgetary position of no Member State would deteriorate by more than 0.15% of its gross national income per year during the first

five years after accession. Second, no Member State would suffer a relative deterioration in its net budgetary position of more than 20% compared to its pre-enlargement baseline.

To empirically substantiate the proposed thresholds, this proposal relies on quantitative estimates of the budgetary impact of enlargement, in particular those presented by Michael Emerson in his article "The potential impact of Ukraine's accession on the EU budget – and the importance of check valves". The analysis (see table in the annex) provides a detailed modelling of how the accession of Ukraine alone would affect the net budgetary balances of the existing EU members.

The evidence confirms that the macroeconomic impact of enlargement remains limited. For most Member States, the change in the net budgetary position corresponds to around 0.1-0.12% of GNI. These results provide an empirical basis for setting the first threshold at 0.15% of GNI, slightly above the expected range, to ensure both realism and a limited margin of safety, especially if the enlargement is a package and Moldova and the Balkan countries join the EU together with Ukraine.

The same data set shows a much stronger effect in relative terms. Changes in net budgetary positions often exceed 20%, and in some cases reach 30-40% or more. This is particularly evident for net contributors whose contributions increase significantly, as well as for some Member States that risk moving from net recipient to net contributor status.

The second threshold, limiting the relative change to 20%, is thus directly derived from this observed dynamic. It reflects a calibrated limit below which redistribution becomes politically destabilizing while still allowing for meaningful fiscal adjustments.

Most importantly, this rule would not prevent reallocation, but would limit its speed and visibility. If the projected budget exceeds any of the thresholds, the Commission would be legally obliged to adjust the spending and financing parameters until compliance is restored.

Conclusion

Therefore, one of the central problems of EU enlargement is the gap between economic reality and political perception. Although the fiscal costs of enlargement remain modest in aggregate, their distribution creates clearly visible winners and losers. It is this perception of losses, rather than the size of the costs themselves, that ultimately shapes the political outcomes.

The framework proposed in this article directly addresses this asymmetry. It limits the distribution of fiscal adjustments and, consequently, creates conditions under which the costs are gradually absorbed and become less visible in domestic political debates.

Thus, the European Union does not have to choose between bigger and better, but can become both through effective management of enlargement.

Annex

Calculation of How Ukraine's Accession Might Impact Net Balances of Member States in the EU

Source: Michael Emerson "The Potential Impact of Ukrainian Accession on the EU's Budget – and

the Importance of Control Valves"

*Excluding NGEU

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