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EU budget reform in the context of the current economic crisis

Ionela POPA
"Constantin Brâncoveanu" University of Piteşti
popaionela80@yahoo.com
Denisa PARPANDEL
"Constantin Brâncoveanu" University of Piteşti
parpandeldenisa@yahoo.com
Diana CODREANU
"Constantin Brâncoveanu" University of Piteşti
codreanudia@yahoo.com

Abstract. *The European Union regarded as an economic re-enhancement force in Europe and in the world must fund the needs of 500 million citizens. To do that, it should possess an innovative budget adjusted to the new facts of globalization meant to meet present challenges and create various opportunities for the future.*

In order to improve budgetary procedures, the need to reform the community bugdet has emerged, namely to change the way it is designed and spent. The manner of setting and distributing the community budget has been changed several times whenever the context in member states has demanded. Thus, European institutions concluded in 1988 interinstitutional agreements which have been covering budgetary process and budget allocation ever since. Agreements are concluded for several years and bear the name of "financial prospects". Other two agreements have been made (during 2007-2013 and, respectively, 2014-2020) in compliance with Delors I and Delors II Packages.

The present paper focuses on approaching the progress of budgetary indicators in the context of the multiannual financial framework where the European Union budget is set.

Keywords: budget; reform; multiannual financial framework.

JEL Codes: H61, H69.
REL Codes: 20J, 20G.

1. Introduction

The European Union regarded as an economic re-enhancement force in Europe and in the world must fund the needs of 500 million citizens. To do that, it should possess an innovative budget adjusted to the new facts of globalization meant to meet present challenges and create various opportunities for the future.

Governments, companies and families all over Europe make careful choices when the issue of spending their own money arises. The European Union should also exist confining to its means, following its main goal: investment for the future. The Union's budget is relatively low, around 1% of European wealth (evaluated by Gross National Income), which means around 1/50 of member states' budgets. However, this is a significant budget, as it is almost entirely spent on investment, not consumption, and can make a true difference when choices are correctly made.

2. What should be known about the European Union's budget

The EU budget is often misunderstood and that is why it is necessary to know its main features:

1) It is a low budget

The EU budget (27 member states, 500 million citizens) was around € 127 billion in 2011, which is very little as compared with the amount of national budgets in all the 27 EU member states which come up to more than € 6,300 billion. In other words, the total public spending of the 27 member states are almost fifty times higher than the EU budget spending.

2) It equals 1% of the EU GDP

The EU budget means approximately 1% of the EU Gross Domestic Product whereas member states' budgets are on average 44% of national GDP.

3) "No" to budgetary deficit

The EU budget is always balanced meaning that no single Euro is spent "on tick".

4) An investment budget

The EU budget is mainly an investment one. 94% of the inflows to the EU budget is invested within the member states according to the programmes and policies that citizens directly benefit from. The former fund long-term investment that cannot be financed nationally (such as transnational infrastructure or investment in research).

5) Low administrative costs

Many people wrongfully believe that most EU budget is spent on its management. In fact, administrative costs are just a small share of the total budget. They have been stable over the last years and significant efforts are being made to keep them low. In 2010, the EU's management costs were almost € 7.9 billion (meaning approximately 6% of EU total budget).

6) Slower growth than in national budgets

The national budgets of EU member states rose during 2000-2010 by 62%, whereas the EU budget only rose by 37%. Nevertheless, the EU expanded during the same period by twelve new member states, reaching 27 from 15.

3. The EU budget: income and spending categories

The EU budget is an important tool which contributes in fulfilling the stated goals of the European Union by means of its multiannual priorities found in the budget structure's spending field. The financing sources of the European budget until 1970 were made up of the member states' contributions and on 21 April 1970 these were replaced by the system of own traditional resources.

The European Union possesses "own resources" to fund its expenses. Legally speaking, these resources belong to the Union. The member states collect them on behalf of the EU and transfer them into the EU budget.

Member states' participation in setting the budget of the European Union takes place by means of own traditional and other type of resources. In this respect, there are (Moşteanu, 2008, pp. 333-335):

1) Own traditional resources: fees, bonuses, additional or compensatory amounts, additional amounts or factors, fees in the General Customs Tariff and other fees already stated or to be stated by the European Union's institutions in relation with the trade with tertiary countries. Such amounts are cashed by national administrations and directly sent into the European Union's budget after keeping a 25% share according to the spending on budgetary income collection.

2) Other own resources. This category includes:

- own resources from VAT ensuing from a single quota applied to VAT-resulted levies in each member state. However, the Union lets its member states decide on the sources of VAT payment to the general community budget.
- resources based on Gross National Income (GNI). They are calculated according to the difference between expenses and other own resources' estimation by applying an even quota to GNI level in all the member states (the quota is set yearly within the budgetary procedure). Such resources are also known as complementary as they can balance the community budget. The quota applied to GNI is set in such a manner

that raised resources could fund the difference between annual spending and other own resources' level;

- incomes resulted from all the newly-imposed fees within a general policy in compliance with the European Community Treaty or the Euratom Treaty;
- the amendment in favour of Great Britain is a special derogation with the purpose to counterbalance the country's major financial imbalances which cover two thirds of the budgetary imbalance between the incomes provided by Great Britain and the Community's spending referring to the British territory; the derogation is assumed by other member states complying with a certain rule applied to Gross National Income as part of the community GNI.

3. In addition to own resources, the budget is also financed from other less significant sources such as various taxes and fees, revenues from institutions' administrative operations, interests on delayed payments and fines, and surpluses from previous fiscal years.

The spending category of the community budget is made up of numerous chapters and budgetary directions which are all classified as budgetary headings (Moşteanu, 2008, p. 334):

1) Sustainable growth: competitiveness and cohesion;
2) Preservation and management of natural resources including agriculture: market spending and direct payments;
3) Citizenship, freedom, security and justice;
4) The European Union as world partner;
5) Administration; Compensations for the European Union's new member states.

4. The multiannual financial framework in the European Union

In order to improve budgetary procedures, it has become necessary to reform the community budget, respectively to change the way it is designed and spent. The manner of setting and dividing the community budget has been changed whenever the circumstances in member states have called for it. Thus, European institutions have been concluding interinstitutional agreements since 1988 which cover budgetary processes and budget allocations. Agreements comprise several years and bear the name of "financial prospects". After the emergence of Delors I and Delors II Packages, as well as 2000 Agenda, two additional agreements have been made (comprising the period between 2007 and 2013 and respectively 2014-2020).

The issue of reforming the European Union's budget arose in December 2005 when a decision of the European Council stated a clause allowing the European Commission to suggest a "budget review" during 2008-2009.[1]

The reason for such a decision was that the EU was still running a budget that met the needs of the 1950's which significantly hindered the funding of new priorities such as economic growth, labour force employment, public health or education and research.

The interinstitutional agreement on the current financial prospect concluded on 17 May 2006 by the Union Council, the European Commission and the European Parliament restates the idea of a review in a statement annexed to the document:

"1) In accordance with the conclusions of the European Council, the Commission has been invited to undertake a full, wide-ranging review covering all aspects of EU spending, including the Common Agricultural Policy, and of resources, including the United Kingdom rebate, and to report in 2008/2009. That review should be accompanied by an assessment of the functioning of the Interinstitutional Agreement. The European Parliament will be associated with the review at all stages of the procedure on the basis of the following provisions:

- during the examination phase following the presentation of the review by the Commission, it will be ensured that appropriate discussions take place with the European Parliament on the basis of the normal political dialogue between the institutions and that the positions of the European Parliament are duly taken into account;

- in accordance with its conclusions of December 2005, the European Council "can make decisions on all the subjects covered by the review". The European Parliament will be part of any formal follow-up steps, in accordance with the relevant procedures and in full respect of its established rights.

2) The Commission undertakes, as part of the process of consultation and reflection leading up to the establishment of the review, to draw on the in-depth exchange of views it will conduct with European Parliament when analysing the situation. The Commission also takes note of the European Parliament's intention to call for a conference involving the European Parliament and the national parliaments to review the own-resources system. It will consider the outcome of any such conference as a contribution in the framework of that consultation process. It is understood that the Commission's proposals will be put forward entirely under its own responsibility."

The information above shows that the main goal of the review was connected to the future as it lays the foundation of a new financial prospect (the financial framework for 2007-2013, respectively 2014-2020).

The multiannual financial framework does not mean the EU budget for seven years but a mechanism meant to ensure EU spending predictibility along with observing strict budgetary discipline. The latter defines maximum amounts (“limits”) for each major spending domain (“heading”) in the Union’s budget. In this context, the European Parliament and Council which represent the “Union’s budgetary authority” must yearly and consensually set the budget for the following year. In real terms, the annual budget adopted is always below the global limit of the annual financial framework which actually decides on the political priorities of the years to come and is therefore both a political and a budgetary framework.

The present duration of the multiannual financial framework started in 2007 and shall end in 2013. The tables below emphasize the classification of budgetary spending within the current multiannual prospect also envisaging the one in the future:

Table 1

Financial prospect (current prices) between 2007-2013

	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013
1. Sustainable growth	53,979	57,653	61,696	63,555	63,638	66,628	69,621	436,770
1a. Competitiveness for growth and development	8,918	10,386	13,269	14,167	12,987	14,203	15,433	89,363
1b. Cohesion for growth and development	45,061	47,267	48,427	49,388	50,651	52,425	54,188	347,407
2. Preservation and management of natural resources	55,143	59,193	56,333	59,955	60,338	60,810	61,289	413,061
of which: market interventions and direct payments	45,759	46,217	46,679	47,146	47,617	48,093	48,093	330,085
3. Citizenship, freedom, security and justice	1,273	1,362	1,518	1,693	1,889	2,105	2,376	12,216
3a. Freedom, security and justice	637	747	867	1,025	1,206	1,406	1,661	7,549
3b. Citizenship	636	615	651	668	683	699	715	4,667
4. EU as global partner	6,578	7,002	7,440	7,893	8,430	8,997	9,595	55,935
5. Administration	7,039	7,380	7,525	7,882	8,334	8,670	9,095	55,925
6. Compensations	445	207	210					862
Total	124,457	132,797	134,722	140,978	142,629	147,210	151,976	974,769
Share in GNI	1.02 %	1.08 %	1.13 %	1.16 %	1.13 %	1.12 %	1.11 %	1.11 %

Source: Ungureanu, 2011, pp. 295-296.

Analyzing the figures that are financially accepted, it is very easy to notice what the Union's budgetary priorities are: the preservation and management of human resources, cohesion for growth and development etc.

The financial framework of 2014-2020 has the values below:

Table 2

Financial prospect (current prices) between 2014-2020

	2014	2015	2016	2017	2018	2019	2020	Total 2014-2020
1. Intelligent and favourable growth for inclusion	64,696	66,580	68,133	69,956	71,596	73,768	76,179	490,908
of which: economic, social and territorial cohesion	50,468	51,543	52,542	53,609	54,798	55,955	57,105	376,020
2. Sustainable growth, natural resources	57,386	56,527	55,702	54,861	53,837	52,829	51,784	382,927
of which: spending on the market and direct payments	42,244	41,623	41,029	40,420	39,618	38,831	38,060	281,825
3. Security and citizenship	2,532	2,571	2,609	2,648	2,687	2,726	2,763	18,535
4. Europe in the world	9,400	9,645	9,845	9,960	10,150	10,380	10,620	70,000
5. Administration	8,542	8,679	8,796	8,943	9,073	9,225	9,371	62,629
of which: institutions' administrative expenses	6,967	7,039	7,108	7,191	7,288	7,385	7,485	50,464
Total engagement credits	142,556	144,002	145,085	146,368	147,344	148,928	150,718	1,025,000
Share in GNI	1.08 %	1.07 %	1.06 %	1.06 %	1.05 %	1.04 %	1.03 %	1.05 %

Source: http://ec.europa.eu/budget/library/biblio/publications/2011/ mff2011/MFF_ 2011_ro.pdf.

The global engagement limit suggested by the Commission for 2014-2020 is 1.025 billion Euros. The amount equals the one of the last year in the current multinational financial framework (2013) multiplied by 7 (number of years). This limit means 1.05% of GNI. The payment limit equals 1.00% of GNI (1.06% for 2007-2013):

Table 3

Comparison between multiannual financial frameworks for 2007-2013 and 2014-2020

(according to prices in 2011)

		2007-2013	2013	2013 X 7	2014-2020
Engagement credits	billion Euros	993.6	146.4	1,024.8	1,025.0
	% of GNI	*1.12*	*1.12*		*1.05*
Payment credits	billion Euros	942.8	137.8	964.4	972.2
	% of GNI	*1.06*	*1.05*		*1.00*

Source: ttp://ec.europa.eu/budget/library/biblio/publications/2011/mff2011/MFF_2011_ro.pdf.

The new multiannual financial framework includes several novelties:

- in terms of economic growth, work places and cohesion

”Europe's Connection” facility is a brand new scheme destined for the funding of priority infrastructures of Pan-European concern in the fields of transportation and energy. The facility shall be centrally managed by the European Commission and financed (40 billion Euros + 10 billion Euros from the cohesion policy budget) by a new budget section. The co-funding rates from EU budget shall be higher for the investment in Europe's poor regions.

Innovative funding tools are proposed in order to accelerate and guarantee major investment which could only be carried out by public funds, especially EU bonds to fund projects. The Commission suggests the unification of the European Regional Growth Fund, European Social Fund and Cohesion Fund into a single strategic framework also including the European Agricultural Fund for Rural Growth and the European Fund for Fishery and Sea Business.

The Commission proposes the conclusion of partnership contracts with each member state in order to reach outcome-oriented programming. These partnership contracts can also include macroeconomic conventions to improve the coordination of member states' economic policies.

Financing cohesion actions shall continue to focus on the least developed Member Regions and states. Nevertheless, to facilitate the progressive exclusion of regions from the convergence objective and to equally rank the regions having the same wealth level, a new category of transition regions shall emerge (whose GDP/per capita is between 75% and 90% of EU average). Cohesion funds shall aim at the investment contributing in fulfilling the quantisized goals set up by 2020 Europe Strategy in compliance with specific provisions regarding conditionality. Conditionality shall be twofold: *ex ante conditions* which must be observed before making payments and *ex post conditions* which can allow the issuing of additional funds only if the expected outcomes have been reached.

- *in terms of research and innovation*

The three most important funding programmes for research and development (Competitiveness and Innovation Programme, the Seventh Framework-Programme, and the European Innovation and Technology Institute) shall be brought together in a single strategic framework, 2020 Horizon, in order to remove partitions and avoid overlaps. Funding schemes shall be standardized and simplified. Additionally, all funding schemes shall have their own set of rules on participation, audit, support structures, outcome dissemination and reimbursement methods. As far as funding is concerned, the innovative financial tools shall help mobilize private investment and partnerships between the public and private sector.

- *in terms of agriculture and environment*

Making 30% of the direct payments to farmers environmentally friendly: in order to ensure that the single agricultural policy contributes in the EU fulfilment of environmental and climate policy goals, 30% of direct payments shall depend on observing several best practices in terms of environment, in addition to the existing duties in terms of eco-conditionality.

- *in terms of environment and climate policies*

The priorities related to environment and climate policies shall be “integrated” within all the EU’s key financing instruments among which cohesion, agriculture, sea business and fishery, research and innovation, as well as in foreign assistance programmes.

- *in terms of justice, health and security*

The financial instrument for civil protection shall be renewed to meet various aspects connected with the management of disasters, namely more coherent and better integrated feedback in emergency circumstances, better preparation to cope with disasters and innovative actions meant to reduce disaster risks.

The Commission also provides the transition from annual to multiannual programming based on outcomes, thus decreasing the amount of administrative work of all players involved.

- *at world level*

There is a single pre-accession integrated tool to reflect structural funds, namely the Cohesion Fund and there is the European Agricultural Fund for Rural Growth. It is about replacing programmes in industrialized, emerging countries with a new partnership instrument meant to support public diplomacy, joint approach, trade and convergence promotion in terms of regulations.

- *regarding EU administration*

The Commission has proposed major changes of clerks’ present status. The changes mainly envisage the 5% decrease in the number of workers so that all institutions, bodies and agencies increase their efficiency and savings, simultaneously guaranteeing European Union public services which can meet the highest standards.

The decrease in the number of workers should be compensated by increasing the number of working time per week by 2.5 hours without any compensatory adjustments of salaries. As early as seven years ago, the European Commission set up a major reform of its administration. It meant lower salaries when recruiting personnel, forming a category of contracting agents with lower salaries, increasing retirement age, low pension rights and more contributions in the pension system. The reform successfully allowed 3 billion Euros saved from European taxpayers' money and it is expected that until 2020 it should generate additional savings coming up to 5 billion Euros.

- in terms of EU budget funding

The reform of the own-resources system is suggested which aims at removing the current own VAT-based resource and bringing forth two new resources, of which the former depends on collecting financial transactions' fees and the latter on the incomes ensuing from national value-added tax(2).

The purpose is not to rise the EU budget, but to contribute in the national efforts for budget re-enhancement by cutting direct duties from member states' budgets. These suggested changes are meant to simplify existing budget duties and strengthen the relations between EU policies and EU funding.

5. Conclusions on the budgetary reform

The EU budget reform is regarded as compulsory after the budgetary pressures caused by the accession of new large member states and by other inside emergencies, but also as a consequence of European and global markets' and countries' changing trends such as climate changes, strong global features of economic relations and security of energy resources.

In the context of wider European Union, the community budget should have a modern and flexible structure. To reach a compromise between the need for flexibility and that for predictibility, one should focus on the relationship between the average-term efficient allocation of budgetary resources and the flexibility of budgetary allocations.

As to budgetary indicators namely community budget revenues and expenses, the fundamental strategic choice the Union has to make now and in the future is either a decent level budget with tough budgetary constraints – such as the one at present –, or a budget with few limits that sooner or later will end up with huge spending.

The budgetary reform fundamentally raises the question of choosing between two ways:

- the former related to development by monitoring the community public spending, private initiatives, rejecting protectionism, improving the business environment to encourage domestic capital and attracting it from the ouside. In a certain way, this is Europe's solution (community level) based on rules, not money;
- the latter refers to maximizing the expansion of community public spending by giving up the tough budgetary constraints existing at present and re-enhancing centralization.

The former way relies on productive citizens and creating wealth, whereas the latter rests on the ability to win in the massive redistribution accompanying the respective process. Yet, this hope is merely theoretical; redistribution is a political process in one way or another controlled by those who generate resources.

In the European Parliament there is a consensus referring to the need for budget reform with the purpose to better cope with future crises. ”In order to generate work places, ensure growth, competitiveness and a strong domestic market, we need a strong EU budget. Each Euro spent from our joint budget decreases the burdens of national budgets” (Buzek, 2011). Yet, the opinions about how that can happen are different: some representatives focus on the ways to raise own resources and others concentrate on how to prioritize spending.

Irrespective of the steps taken in the context of its reform, the Community budget should be regarded as an important tool the EU can use to accomplish its current political goals, to generate exchanges and to maximize the long-term impact of community actions.

Notes

(1) The European Council, Brussels, 15-16 December 2005, addressed the Commission the following recommendation: “to undertake a full, wide-ranging review covering all aspects of EU spending, including the CAP, and of resources, including the UK rebate, to report in 2008/9. On the basis of such a review, the European Council can make decisions on all the subjects covered by the review. The review will also be taken into account in the preparatory work on the following Financial Perspective.”

(2) On 28 September 2011, the European Union Commission drew up a COUNCIL PROVISION proposal regarding the single system of fees on financial transactions and the amendment of Direction 2008/7/CE. Financial transaction fee shall apply on the territory of all 27 member states and shall not include transactions of individuals or small and medium enterprises (SME's) such as mortgage loans, bank loans made by SME's, or insurance

contracts. There will be no tax on foreign exchange transactions or capital increases made by enterprises or public bodies. Such a fee already exists in ten member states but the action within the EU is more adequate to prevent the transformation and fragmentation of the domestic market. Preliminary estimations show the revenues generated by such a fee all throughout the EU might annually reach 57 billion Euros according to market feedback. Some of these revenues might be used as own resources to the EU budget leading to the reduction of national contributions in the EU budget and the decrease in the urgency upon national budgets.

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