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Reform of the EU Budget

- The political agenda of the EU is now being updated significantly. The EU budget is an important tool for the EU to realize current political objectives, to implement changes and to maximize long-term effect of the EU acting.
- Even though there was a mutual agreement between the European Council and the European Commission regarding Commission to check thoroughly in June 2011, the Commission published a concrete proposal of the MFF 2014–2020 incorporating the already criticized aspects.
- The reform of the EU budget needs to be a considerably complex process, including various areas. The determination of the accurate expenditure priorities ranks among the crucial issues, according to the best knowledge of the authors.

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Is it possible to reform the EU budget without changes?

The elementary basis for the reorientation of the EU budget expenditure needs to consist of the following approaches, according to the Filipa Figueira (2007):

1. The *minimalistic approach* (the budget is set on the 1% level of the GNI of the EU.
2. *Contractual responsibility to the EU policies* (including Common Agricultural Policy – elimination of direct payments representing a deformation).
3. *Investments to the European public goods:*
   a) infrastructure and other types of trans-European networks,
   b) measures against market failures,
   c) support of the convergence and the economic growth (through research, development and education).
4. The *objectives of the redistribution* between the countries and social groups achieve any decrease in the current considerable high level of redistribution of the expenditure structure of the budget of the EU.

Authors suggest adding following objectives:

5. *New political and expenditure objectives.*
   a) Security, defense,
   b) climate changes, energy challenges, environment,
   c) policy of stabilization,
   d) police and court cooperation.

The reformed budget of the EU shall include many transnational aspects, to represent the theory on the fiscal federalism.

We recommend setting the *lower level of the EU budget on the 1% of the GNI of the EU Member States;* however, we don't expect this limit to be exceeded significantly. We assume, that even though the level of expenditures of the EU budget represents in macroeconomic perspective only 1% of the GNI EU (corresponds to 2–4% of the national budgets of EU MS), the importance of the EU budget is not always possible to determine and measure by the economic indicators.

In the case that the stabilization schemes of the EU budget balance the asymmetric shocks to the maximum extent possible, there is a need for 14–69 billion EUR for their administration (0.2–0.9% GDP of the EU) in the current prices of the year 2004. Both these amounts are considerably higher than for example rebate of the Great Britain (approx. 5 billion EUR). It means, that it will not be easy to incorporate this stabilization element into the EU budget completely.

After the publication of the consultancy document of the European Commission, in which the commission asks qualified as well as non-qualified public to cooperate, several reforming proposals, comments and ideas have been delivered. Until now, none of the proposals have been approved; therefore, following paragraphs discuss the main proposals.

Thinking about the direction of the reform of the expenditures of the EU budget, it is necessary to consider the *different conditions between the member states of the EU.* In order to introduce a successful reform, it needs to be *complex,* and respect the various social and economic conditions within the EU. Moreover, the condition of the *unique determination of the EU objectives needs* to be fulfilled as well. None of the budget items is allowed to be processed individually, because the policies of the EU and interconnected and interdependent. The principle of *solidarity* has to be applied.

The new structure of the budget has to be beneficial for all the EU Member States, but also for the EU as a whole. According to our perspective, the reform should reflect the *aspects of the Lisbon treaty* (principles of subsidiarity, proportionality), valid from 1st December 2009. The final condition for the reform of the EU budget is its resulting in the *reforms of the national budgets* to achieve synergistic effects and mutual compatibility.

This last condition stems from the authors' recommendation for the EU Member States as greatly individual due to the common monetary policy and diversified fiscal policy of each EU Member State. *It is necessary to mention, that if the proposal for the EU budget reform is compatible with the reforms of individual national budgets, the European Financial Stability Facility will not be introduced and discussed in the Member States.*

The EU budget reform, or proposal for the Eurozone budget, shall be compatible with the reform of the national budgets within each of the Member States.

Table 1: Comparison of the MFF 2007–2013 and the proposal of the MFF 2014–2020 from the perspective of the liabilities of the EU

Expenditures	Liabilities (billion EUR) (current prices 2011)		Diff. MFF 2014–2020 and MFF 2007–2013	
	2007–2013	2014–2020	billion EUR	ratio
1. Competitiveness and growth	**445.5**	**490.9**	**+45.4**	**+10.2 %**
Competitiveness	77.8	114.9	+37.1	+47.7 %
Infrastructure	12.9	40.0	+27.1	+209.7 %
Growth	354.8	336.0	−18.8	−5.3 %
2. Preservation and management of natural sources	**421.1**	**382.9**	**−38.2**	**−9.1 %**
Direct payments and market-oriented expenditures	322.0	281.8	−40.2	−12.5 %
3. Freedom, justice, citizenship	**12.4**	**18.5**	**+6.1**	**+49.9 %**
4. EU as a global partner	**56.8**	**70.0**	**+13.2**	**+23.2 %**
5. Administration	**56.9**	**62.6**	**+5.7**	**+10.1 %**
Total liabilities	**993.6**	**1025.0**	**+31.4**	**+3.2 %**
Non-budgetary expenditures	—	**58.3**	—	—
Flexibility instruments	14.1	19.4	+5.3	37.5 %
EDF	24.0	30.3	+6.3	26.5 %
Liability rate compared to the GNI EU 27	**1.12 %**	**1.05 %**	—	—

Note: Comparison excluded Croatia.

In fact, it is not only effort but enforcement of the expenditure strategy

The Europe 2020 is 10-year strategy of the EU for encouragement of the European economy with a vision of intelligent and sustainable growth based on deeper coordination national and European policies. The approved financial perspective for 2014–2020 has a minimum linkage with the Europe 2020 strategy.

The approved financial perspective for 2014–2020 aims to link the Europe 2020 strategy, in reality, in our opinion, it will be very difficult to enforce the priorities of the strategy through the presented budget. The presented budget is conservative from its essence and again the bulk of the expenditures will continue to be directed into traditional areas: in agriculture and regional policy. The share of expenditures in these two areas thus remains almost unchanged. In one of the working papers of the Commission was a proposal that there should be the individual chapters of the financial perspective only renamed so as to reflect the priorities identified in the Europe 2020 strategy (European Commission, 2011). There should not be any (or only a slight) change in the defined structure of expenditure.

An *important positive change* in this draft of the financial perspective for 2014–2020 is the connection of the support of the research, development and innovation under the new program – Common Strategic Framework for Research and Innovations. In the financial perspective 2007–2013, European research and development was funded through the 4 instruments (FP7, Framework Programme for Competitiveness and Innovations, the European Institute of Innovation and Technology, Structural Funds to Support R&D), therefore, there was a relatively high fragmentation in financing and setting priorities. According to the theory of fiscal federalism, supporting research at the European level is highly effective, due to the presence of positive externalities: benefits from the R&D can have all the citizens from the EU (through increased economic growth). There is not a problem of heterogeneity and economies of scale are high.

Common agricultural policy is ineffective and thus failed. What should be its future?

The Common Agricultural Policy (CAP) remains very significant chapter among EU budget expenditures, although the total volume is less than cohesion policy. The common agricultural policy is ineffective, it does not achieve the stated objectives, its results are difficult to measure and quantify, and it is one of the main sources of constant disputes over the net budgetary position of the Member States of the European Union (Gros, 2008). From the aforementioned can be concluded that the Common Agricultural Policy failed in most aspects and it was unable to achieve the objectives efficiently and in cost-efficient manner.

In the following table, the comparison of objectives of the CAP, their achievement and performance are briefly outlined.

Table 2: The relation between the CAP objectives and their achievement

Objective	Quality of the CAP intervention
Increase the production in agriculture	**Very inefficient.** CAP was successful in increasing agricultural production, however, not in increasing productivity of the production factors. The production costs increased (as a consequence of direct payments and price supports).
Ensure the certain standard of living for farmers	**Very inefficient.** Funding through CAP was aimed mainly to price supports on the markets, the majority of payments belonged large commercial farms. Small family farms oriented primarily on agricultural production made the lowest profits.
Markets stabilization	**Extensive externalities.** The prices in the Europe were stabilized; however, the prices on the related markets were deformed and the prices on the world markets destabilized.
Ensure sufficient food supply	**Indirect effects/inefficient solution.** Sufficient supply of food at the early stage, later on even exceeded the sufficient level (cases on destruction agricultural crops).
Reasonable prices for consumers	**Failure.** Prices for the ending consumers are high.

Source: Wynn, Ferrer (2007), authors' modification.

It can be assumed that *it is difficult to argue in favor of maintaining the Common Agricultural Policy in its current form* (this also applies to its performance and funding). *CAP, in our opinion, does not support cohesion,* based on the fact that the bulk of support is heading to richer (more efficient) farmers in the richer EU countries.

Two pillars of the CAP stayed the same and the basic structure of the CAP remained unchanged, although formally the main objectives clearly reflect the Europe 2020 strategy. The important change is incorporating more environmental aspects into the first pillar. In the future, therefore, 30% of the direct payments will be linked to the policies for the environmental protection (reduction of CO_2 emissions, low energy consumption).

CAP has undergone extensive reforms in 2003 and 2008 since its inception. Currently, with a prospect of a further CAP reform it is necessary to take into account the fact that the EU does not represent the EU-12, or the EU-15, but the richness and diversity of agriculture is represented by the 28 EU Member States. For effective radical reform, the orientation on the stated objectives should be emphasized – such as accurate within a given area and climate, in relation with the particular environment and employability – not to highlight the political strategy but the agricultural strategy.

Therefore, the reform should rename the Common Agricultural Policy to the Common Agriculture, which would place special emphasis on a high level and the development of agriculture and farmers, rural development, production of healthy food – mainly domestic, and protection of water, soil and air. *In order to support the effectiveness of the common EU agriculture there is a need to reduce, respectively eliminate the bureaucracy, consider small and young farmers, promote research and development in the field and according to the historical context, clearly and distinctly define the level of payments and support to the common agriculture.*

Focus on the European value added

The European Union introduces new dimensions by its proposal, which could be called "delegation of powers upwards". It is essential to determine what are the circumstances and conditions that European government provides added value. Salmon (2000) argues, however, that the traditional approach of fiscal federalism has its weaknesses in the analysis of the European Union itself because it emphasizes the wrong aspects of fiscal competition.

The *added value of the expenditures of the European Union* defines which costs shall be spent at the supranational level and which not. Activities funded through the European budget should create added value. In economic terms, this means that the economic benefit to the recipient after the investment from the EU is higher than without the investment. This criterion does not require that the total benefits at the European level were higher after the transfer. Variety of criteria serves to determine whether EU expenditures have successfully passed the value added test. Expenditures have a political nature – for example, expression of solidarity, increase in visibility, and especially support of the key policy objectives of the Union. All these have to be able to offer returns at the European level that is not possible to achieve at national or local level. At the same time, the criteria have to be organized in such a way as to meet the objectives for which they were intended.

> In the optimization of the EU expenditures it is crucial to choose and focus to provide the greatest benefit.

Review of the EU budget should be useful in choosing and determining expenditure priorities: there can be policy areas where it is no longer necessary any funding from the EU, or where the return is limited; on the other hand, there can be new and cross-cutting policy priorities that require new resources. At the same time, the need to complete ongoing activities and to continue with effective activities must be considered.

Does the traditional budget really change for innovative budget?

In contrast to the national budget, the budget of the EU is not for funding armed forces, social protection, schools, police or justice (its base is a wide approach, not national), but the EU budget serves mainly for financing investment projects, which would otherwise be not implemented (in some countries it is the only source of investment in infrastructure). Today *we spent about 6 percent of the administrative purposes* – employees, buildings of the EU institutions (European Parliament, European Commission, Council of Ministers, Court of Justice, Court of Auditors) – we agree with the opinion to reduce these costs to accommodate the need for consolidation of public spending while reducing the number of workers in administration. The *remaining 94 percent of the EU budget goes to projects* in the Member States and beyond.

To facilitate the understanding can be said, that the EU budget provides two main types of funding – grants and public procurement.

The *grant areas* are not based on the allocation of the appropriations, but in the bureaucratic steps that the applicants for the grant demotivate. The initial euphoria of these funding options faded, is imbued with allegations of corruption, scandals, and numerous obstacles from the financial providers. We propose a simplification of the funding criteria, clarification and thus motivation of potential candidates. In this context, a question on the issue of the amount of "financial participation" on the projects appears to us as disputable.

Public contracts (procurement), allocating funding through calls for tenders for the purchase of services, goods and works in order to ensure the activities of the EU institutions or programs seems to the authors to be absolutely ineffective in relation to the functioning of the general government, therefore they suggest to abolish it completely.

These two facts could affect one of the most important new features in the current EU budget: emphasis on results and performance!

Quo vadis financial perspective of the EU?

Quarter of a century has passed since the first financial framework was introduced; it is thus time for a pan-European reflection to prepare a ground for a renewed consensus on the direction of the expenditure policy, which will be able to meet the challenges of the next period marked by the global financial, economic, but mainly moral crisis. This policy paper suggests possible directions for the expenditure side of the EU budget, as it is one of the key areas of the overall reform of EU's financial perspective, which is extremely important to respond to the current global financial, economic and development challenges.

EU budget reform must be a very complex process involving several areas of the overall size of the budget, through the budget structure to the launch of new budgetary resources. Determination of the administrative expenditure budget priorities reflecting the current state of the European integration is from our point of view the key area.

In the 80s of the last century the political and institutional instability in the financing of the European Communities deepened and the pressure on the joint budget increased. Therefore, the financial perspective was introduced as the multiannual financial framework of an inter-institutional agreement between the European Commission, Parliament and the EU Council.

Despite intensive discussions, which lasted more than two years, in our view, the three institutions responsible for budgeting and financial perspectives 2014–2020 failed to agree on any material changes to the structure of expenditure and budget flexibility.

Based on the aforementioned facts, CAP and its expenditures were the most problematic area in the annual approval of the Community budget. The problematic parts don't seem to disappear easily: especially in the context of setting the expenditure priorities of the EU, as for example sustainable growth and employment in the EU, or expenses towards energy sector and the environment.

Conclusion

The EU budget failed to meet the needs and challenges it faced for a long time. Because of its inflexible and poorly targeted spending programs, the budget cannot create jobs and promote economic growth that Europe needs.

It is necessary to ensure that expenditures of individual policies do not reduce spending of another one, as well as to achieve correlation between economic growth and financing of the environment and between the foreign policy and internal security.

It is necessary to focus on innovative budget that can be achieved if we understand the reality of globalization with a perspective to the future, if we do not just write and talk about the Cohesion, but it will be implemented. Innovative budget can only be achieved by ambitious, solid and responsible actors. Reconciling of the principles of autonomy, transparency and fairness can facilitate meeting the objectives.

Finally, it is very important to discuss whether to increase the overall EU budget, or to support or deny the access of "my money back", or the access to education of young people, their development and thinking that educate them on "innovative thinking" , "be able not to lose within the excellent environment", "take the leading position in the industry and be competitive" – is it always demanded? It is necessary to consider whether any proposals from the EU institutions are properly interpreted and transmitted to more than 500 million EU citizens.

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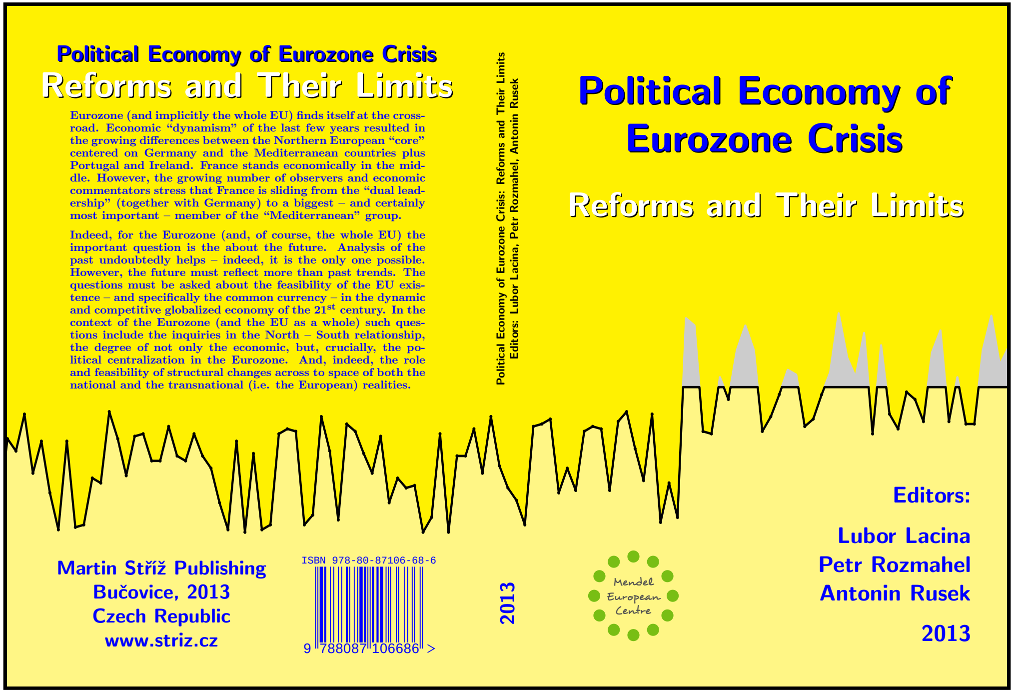

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Vignette
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Think tank – Mendel European Centre
About the Project: Objectives and Mission

Foundation of Think tank – Mendel European Centre has a direct link to realisation of the European Commison project Jean Monnet Centre of Excellence at Mendel University in Brno, Czech Republic. The main objective of the think tank is to contribute to the discussion about advantages and disadvantages of membership in EU and eurozone. Activities of the think tank also provide suggestions for futher process of deepening of integration towards fiscal and political union.

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