

# DEBATES ON THE FUTURE BUDGET OF THE EUROPEAN UNION

**Claudia Diana SABĂU-POPA, Sorina COROIU**  
UNIVERSITY OF ORADEA, FACULTY OF ECONOMIC SCIENCES

**Abstract:**

*This work deals with the way of improvement on the financing of the European Union, with the modification of the expenses profile of the Union, due to the changing of the priorities of the economical politics, and with the dissensions existing between the member states, concerning the Common Agricultural Policy which is, nowadays, in a process of simplification. The work is based on some debates regarding the budgetary review 2008/2009 to which the European Commission was engaged. We consider that the review has few chances to end with a vast budgetary reform if it is assimilated to political debates on the priorities of the Union regarding the expenses, because it must follow also the institutional reforms from the point of view of the structure and way of functioning of the community budget system.*

**Key words:** UK Correction, Budgetary Review, Common Agricultural Policy, GNI Resource.

**JEL classification:** F36 - Financial Aspects of Economic Integration

In the present, the General Community Budget is in a phase of fundamental restructuring, dictated by the changings of the priorities of the economical politics, because of the evolution of some endogenous factors, such as the enlargement and intensification of the integration, or some exogenous factors such as the increase of the dependance of the energy, of international migration of workforce and of the climatic changings.

The structure of the expenses of the general community budget has considerably changed over the time as the allocated amounts were concentrated on a relatively few objectifs. While at the beginning of the integration process the budget of the three Communities covered entirely the administrative expenses, the community budget from 2007 became an operational one, oriented to the financial support of the development which is sustainable through the objectifs: economical increase and occupation of workforce 38,4%, the conservation and administration of natural resources 47,9%, European citizenship, freedom, security, justice and external actions of the Union 7,3%.

The European Union Budget must assure to its contributors the obtaining of the best level of the added value of its funds. The expenses of the European Union demonstrate the solidarity, the transparency, and even more than that, the achieving of the political objectifs of the Union, but, at the same time, there are also some domains in which the community expenses are not justified at all or in which the obtained results are limited. That's why the general community budget must cover the expenses in order to permit:

- a) development of social responsibility in the community space, in the meaning of the increase of the concurrence for the resources and markets, and the increase of the appearance of some market places of big dimensions in the extra-community space which may become provider of products and workforce, competitive for the Union;

- b) increase of the scientific and technological progress through the encouragement of the development of knowledge, mobility, grade of competitiveness and innovation;
- c) transformation of the community space in an economy based on knowledge, through the development of the information technology and professional performances;
- d) modification of the structure and demographical balance, as well as the confrontation with the tensions caused by the migration<sup>1</sup>.

The two main incoming sources of the European Union, the personal resources based on VAT and GNI (Gross National Income) which represented 79, 41% from the general community budget in 2007, include many national contributions, are provided by the National Treasuries and are sometimes present as expenses in the National Budget. As a consequence, the member states have often a tendency to judge the policies and community initiatives in terms of the profit related to the national contributions, instead of evaluating first of all the global value of realization of some policies at the level of the community.

In May 2006, an agreement between the European Parliament, the Council and the Commission was reached at, according to which it must be realized a fundamental review of the European Union Budget which covers all the expenses of the E.U. (especially the Common Agricultural Policy) and E.U.'s own resources (including the compensation in favour of England). Undoubtedly, the review of the Common Agricultural Policy's expenses is a prerequisite for any major reform of the EU's expenses. But this review remains impossible as long as an agreement is not established between the member states who sustain the Common Agricultural Policy and those opposing to this policy. The European Commission will examine the way in which this budget functions and can be obtained the best balance between continuity and response to the new challenges, and, as well the best method to provide the necessary resources for the financing of EU policies and whether it functions properly in a Union with 27 member states.

Since 1984 Great Britain benefits of a reduction of its contribution to the Community Budget, known as the "British rebate" or "UK correction". The mechanism, of which method of calculation is so complex, regards the refund of 66% of the difference between the greater payments made by Great Britain to the community budget and the fewer expenses paid by the European Union on the territory of Great Britain. Nowadays, while the part of Great Britain in the community GNI is 16,98%, its part in the financing of community budget is only 12,2%. The "British rebate" is financed by the member states of the European Union, depending on the pro rata of their GNI in the community GNI.

In his report from 7 October 1998 on the functioning of the system of own resources, the European Commission expressed important reserves regarding the budgetary balance and criticized the relevance of the term of budgetary imbalance, considering that the methods of calculation and evaluation of budgetary balance don't take into account but partially the advantages the member states benefit of their belonging to the European Union. It underlines that the correction mechanism in the favour of Great Britain presents technical inconveniences, it does not fit any longer nowadays, and through the extreme complexity of its method of calculation, the principle of transparency and budgetary simplicity is not respected. Indeed, none of the

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<sup>1</sup> Ana Bal coordonator *Scenarii privind evoluțiile comunitare în domeniul competitivității, politicii de coeziune și politicii de dezvoltare regională, SPOS 2007, Institutul European din România, București, December 2007, p.12*

economical, budgetary and social foundations which lead to the adoption of the UK correction mechanism, endures today.

The report of the French deputy, Alain Lamassoure, concerning the future of European Union's own resources, which was approved by the European parliamentarians on the 12 March 2007, proposes a reform in two phases:

- ***the first phase***: *the new system will base on the gross income*: each member state will contribute with 1% of it. The abolition of "any budgetary privilege for any member state" will be a key element of this period and will include the abolition of the "British cheque", until 2013.
- ***the second phase*** *provides the gradual introduction of an authentic system of own resources which may replace the national contributions until 2014*. This system will be able to include taxes already existing in the member states, such as the share participation to the payments of the VAT or the share of the taxes on the energy consumption. Other options would be the taxes on the financial transactions, on the transport or telecommunication services, the tax "eco". The fiscal sovereignty will belong continually to the member states.

But according to the opinion of the European Court of Auditors, it is very difficult to realize an elaborate reform of the system of own resources of the Community, if the debates concerning this matter is associated directly to the negotiations regarding the financial ceilings and the amounts to be allocated to the community policies (as it happened on several occasions).

In the same time, the main dissensions between the member states of the Union regarding the expenses of the European Union are related to the expenses concerning the Common Agricultural Policy. Despite the integration of agricultural policy and regional development allowed by the Agenda 2000 and the creation of the two pillars, the expenses related to the common organization of the markets and the direct payments absorbed in 2007 almost three quarters of the credits allocated to the "Conservation and administration of natural resources". Five of the member states of the European Union (France, Germany, Spain, Italy and Great Britain) absorbed in 2007 63,7% of the total expenses of the Common Agricultural Policy. Only France, one country, absorbed in 2007 19% of them and this is one of the reasons why it has an offensive interest in the maintaining of the actual mechanism of sustaining. An unequal distribution exists also within the member states.

The enlargement of the European Union on the 1 May 2004 with the twelve East-Central European countries had consequences on the implementation and functioning of this policy, caused especially by the increase of the number of farmers which put a high pressure on the community budget in conditions in which Community's average GDP decreased. For this reason, it became necessary a new approach of the Common Agricultural Policy.

Germany, one of the greatest net contributors to the community budget wants a reduction of the agricultural expenses, Sweden, Denmark, Holland, Great Britain reinforcing this budgetary reorientation. France, Austria, Belgium, Luxemburg, Spain, Ireland, Italy, Portugal are the member states who defend the idea of maintaining the amount of agricultural expenses of the European Union, as well as many other states recently entered into the Union. France arrived to the front of this coalition. Through the Minister of Agriculture and Fishing, it presented at the Council of the Ministers on the 20-21 March 2006 a memorandum on the implementation and the future of the reformed Common Agricultural Policy. This memorandum agreed by twelve of the member states (Chypre, France, Spain, Greece, Hungary, Ireland, Italy, Lituania, Luxemburg, Poland, Portugal, Slovenia) and also approved by Romania and Bulgaria,

presents a defensive position of the maintaining of the Common Agricultural Policy reform from 2003 until 2013.

So, in October 2006, the Department of Agriculture and Regional Development of the Commission elaborated a working document for an action plan dedicated to the simplification of the Common Agricultural Policy which was submitted to debates. This action plan is a concentrated exercise of "technical simplification" and "political simplification". Probably the most ambitious project is that of the "simplification of agricultural policy" which will concern actually the reduction of the complexity of this policy by the improvement of the support offered to the agriculture and by the development of the instruments for the policy of regional development.

The supporting instrument of the Common Agricultural Policy for the future financial perspective should, in our opinion, be constructed so that it may satisfy as well the objectives on a short term concerning the minimal incomes, as the objectives on long term concerning the modernization of the regional area of the Eastern and Central European countries, adhered to the EU on the 1 May 2004, and also Romania and Bulgaria.<sup>2</sup>

The budgetary reform from 1988 of the Delors Commission could be realized due to the fact that the member states were convinced of the necessity to increase the dimensions of the general community budget and of the doubling of the resources amount for the economical and social cohesion in order it may be established an internal market in an enlarged and heterogenous Union. In fact, beyond the fact of giving consistency to the principles of cohesion stated in the Single European Act, this budgetary reform was an attempt of solving a series of structural problems of which was suffering the community budgetary system since the middle of the '70: chronic lack of resources, absence of a budgetary discipline concerning the agricultural expenses and endless disagreements between the Council of Ministers and the European Parliament, which prevented regularly the elaboration of the annual community budget. The reform from 1988 of the Delors Commission was successfully realized due, first of all, to the relation established between the budgetary reform and the completion of the internal market.

This successfully completed reform leads to several conclusions<sup>3</sup>. The first of them is the necessity to approach with priority the structural problems. Many factors explain the lack of concordance between the European Union's resources and its needs, some of them of political nature (the tendency of the member states to give priority to "their net balance"), others more technical (the poor quality of the evaluating data, lack of instruments necessary to the integration of these data in the process of budgetary planification). The second conclusion refers to the necessity to intervene simultaneously in all the aspects of the Union's budgetary system: expenses, resources, procedures. If we refer to the priority given to the "net balances" within the budgetary negotiations, several factors explain why some of the member states are more than eager to maintain and reinforce their net balance: the increasing inadequacy between the political priorities of the Union and the structure of its expenses, the contribution based on the GNI which is now the main source of financing and the characteristic of the actual decisional process in the budgetary domain (right of veto of the member states). We consider that it is absolutely necessary to reduce the amount of contributions based on the GNI on the total of community resources. We also consider that it is primary to eliminate the right of veto of the member states who threaten to use it in order to

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<sup>2</sup> Pierre Boulanger *Les arbitrages budgétaires*, Competition, Cooperation, Solidarite, Projet PAC 2013, published on the website [www.notre-europe.eu](http://www.notre-europe.eu), August 2007, p.4

<sup>3</sup> Eulalia Rubio *Le réexamen du budget de l'UE : poser les questions dérangeantes*, Notre Europe, [www.notre-europe.eu](http://www.notre-europe.eu), March 2008, p. 24

confer to the community decisions an orientation more proper to their national interests.

The community budgets from 2000-2006, and even more than that, the budgets from 2007-2013 are characterized by two new features. On one hand, it takes place a fundamental changing between the objectives to be financed and the disponible funds. On the other hand, EU didn't take into consideration the positive correlation between the dimensions of the community budget and the enlargements of the integration. All the enlargements of the European Union made necessary the significant increase of the community budget, because they implied the appearance of new objectives claiming for financing. This can be observed already after the adherence of England, Denmark and Ireland in 1973. Even the enlargement in 1995, when the three developed countries: Austria, Finland and Sweden, adhered, had as effect the increase of the expenses of the community budget (and of course its incomes). The greatest enlargement from the history of the European Union, that in 2004, took place in the spirit of reduction from the very beginning of the general community budget. The budget for 2007-2013 seems to be even more reduced, the attention being focused on the support of the future but also of the objectives of the Community.

Besides, the fundamental dilemma concerning the future of the Union's budget didn't change at all. The main question is whether it is possible to create and finance a competitive European Union of a percentage of the member states' GNI in the XXI century.

Regarding this aspect many comparisons can be made. One of them is the budget of the federal states, within which a significant part, sometimes 10% of the national income is meant to be used to cover the expenses of the federation, including here those meant to be used for the direct budgetary compensations from the regions having a different level of development. But in these cases, it is about a political union (USA, Australia, Canada, Germany, Austria and Belgium).

Another comparison refers to the national budgets of the member states of the European Union. While 30%-50% of the gross national income of the member states is centralized in their national budget, then redistributed to different objectives, the European Union has only 1% of the GNI, that is equivalent to 2%-3% of the national budget. These proportions could be changed if the member states reviewed their national and community priorities, giving priority to the community objectives based on the future perspectives of supported development.

The duality, that characterizes nowadays the financial aspect of the European integration, hardly can be maintained on a long term, first of all because the Monetary Union operates with the participation of 16 member states, while the members of the Union remain sovereigns on their fiscal policies. The maintaining of a unique currency needs the coordination of the fiscal policies. The greatest challenge for the general community budget would be the situation in which no real convergence take place between the member states participating to the Monetary Union. We can state thus that the future of the Monetary Union is similar to that of a "bomb" which could imply a fundamental reconsideration of the general community budget.

In the debates and opinions regarding the future of the community budget, the role of global provocations should not be neglected. "The Solidarity Fund" which is already included in the budget for 2007-2013 is meant to finance, to the limit of 500 billion euro/year, the quick transformation of those companies which will become the main victims of the globalization.

The analysis of the political circumstances in which will be included the future budgetary negotiations shows the fact that the review has few chances to end with a vast budgetary reform if it is assimilated to a political debate on the Union's priorities in

matter of expenses. Beyond the debat on the expenses, the budgetary review for 2008/2009 must also follow the institutional reforms from the point of view of the structure and way of functioning of the community budget system.

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