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THE CONSEQUENCES OF GLOBAL FINANCIAL CRISIS OVER EUROPEAN UNION BUDGET

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Abstract
Today the global economy is facing the biggest financial crisis of the last eighty years, with huge implications in real economy. The international financial institutions, together with the developed countries' governments have to take a series of exceptional decisions, decisions meant to minimize the devastating effects of this crisis over the economy and citizens. The European Union Budget is the most important tool of the Community that can decide the amount of revenues and expenditures for each political objective. In this paper will try to capture the main effects that this financial crisis has over the European Budget. The focus will be on the "social policy" expenditures and on the dynamic changes of the budget's indicators.

Keywords : European Union budget, financial crisis, European Union policy
JEL classification: F36, G01, H77

Introduction

Global financial markets are in a troubled period, with record volatility registered on capital markets, unprecedented losses in financial institutions and the entire banking system shaken from the bottom. The financial crisis that began in the United States has made numerous damages even in Europe. Many EU countries have been forced to take exceptional emergency measures in order to support financial institutions in difficulty.

In order to contain the influences of the current financial crisis on the Community budget first will be to analyze the string of events that culminated with the global financial crisis.

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Millions of Americans borrowed money using the new cheap loans, attracted by the brokers who in pursuit of profit would be lent to anyone for the sake of winning. American citizens have been attracted by their dream house, purchased by real estate loans, which have become increasingly cheap. When U.S. financial markets began to fall the ones fond of cheap houses and financial speculation have vanished, sending the market into chaos. One of the climax of the crisis was on 9 August 2007, when the short-term loan's market simply frozen.

French bank BNP Paribas has decided to suspend three of its investment funds, affected by the exposure they had on the U.S. market. The French were the first who realized the impending crisis and pulled the alarm signal, and the next few months big names from the world bank has admitted that they have problems with subprime loans.

Measures were took to this end for banks' activities to return to normal. For example, the European Central Bank has invested 95 billion, the Federal Reserve System (FED) and Bank of Japan took similar measures, but commercial banks have allegedly increased risk premiums, which led to a rapidly increasing interest rates.

The first serious problem in the European Union area has emerged in Britain in August 2007 when the largest provider of mortgages, Northern Rock, started to crash.

European Union leaders have committed to coordinate national efforts to support the banking system, to protect depositors and to increase the credit's flows. Under the plan, governments would have to buy shares in banks to help them consolidate their finances and guarantee, temporarily, the banks refinancing system in order to reduce credit crisis and boost the economy. While increasing confidence in the financial system European governments have also pledged to guarantee interbank loans and were also willing to guarantee new loans for maximum 5 years.

In this respect, European leaders in the summit's emergency meeting in Paris have developed a common plan to face financial crisis. In this joint action plan were references to a number of possible solutions out of crisis, such as:

- Taking a firm commitment to act together in a decisive way, in order to restore confidence and proper functioning of the financial system;
- All Member States must take decisive action and use all available tools to support institutions involved in enhancing the efficiency of adoption of appropriate measures for the present situation;
- European Central Bank and many central banks have taken the decision to reduce interest rates in order to boost lending.

Implementation of these measures require the European Union, Euro area governments, central banks and supervisory authorities to have a unified and coordinated approach, with the priority objectives to ensure adequate liquidity for financial institutions, facilitating the financing of banks, providing a sufficient level of flexibility in the implementation of accounting rules and taking into account the circumstances and procedures for improving cooperation between European countries.

In reality, it was proved that all these measures, each of them, have failed to stop financial crisis advancing march and its propagation in the real economy.

In a new attempt to limit the effects of the crisis was determined again a concerted intervention of all European countries and the most important European Union institutions. The main lever through which the EU can intervene in the economy of European countries as its budget and the full range of measures envisaged in was reflected in 2 the 2008 budget and particularly that for 2009.

The operating mechanism of european union budget

The operating mechanisms of the European Union budget are complex and intelligible to very few. Budgetary resources are far from being sufficiently transparent that the common tax payer can understand, and making decisions on spending is usually left up to those directly involved, such as the Budget Committees of the European Parliament and the Council of Ministers. Those who understand this complicated bureaucratic mechanism are generally specialized in this subject and that is the main reason for usually positive reports on the EU budget.

Although representing only a small fraction of total national income of EU member countries, the European budget is an important tool in the transmission of common political goals. The budget is used to finance a wide range of activities in the Member States, for example in agriculture and rural development, infrastructure construction, education and research, human resources and social policy, environmental protection. The budget also covers costs of administration of the Community institutions and a part of the European budget is used for the cooperation development and humanitarian aid granted to third countries.

The European Union budget is an instrument that determines the level of expenditures that can be made in each of the areas of Community policy, and the projected revenues to be collected to finance that year spending.

Being the most important tool that influences the amount of all expenditures and revenues of the political goals, the European Union budget can not be compared with a national budget because it has some unique defining characteristics. For example, in the decision making process, the European Union must comply with the principles and make compromises between different states, particularly if the expenditure regards agriculture and regional development.

In addition, the Community budget differ from those of international bodies, budgets which are financed from contributions of Member States, because the main objective of the European Union is to strengthen integration. Given this goal, the EU budget function and work is carried out by specific rules.

In the early years of the European Economic Community, the main purpose of the budget (which at that time was based on transfers from the Member States) was to finance the Common Agricultural Policy (CAP). The 1971 reform created the concept of own resources that consist of customs duties applied to goods imported from outside the Community and agricultural duties levied on imports into the EEC, directed to the European budget. While PAC costs have increased from 1970, the Community has received new features, so new areas of interest to support regional development and thus too have increased costs, and the two own "traditional" resources were no longer able to cover expenditures, necessitating additional payments of the Member States. Consequently, a third source of funding was therefore introduced in 1979 consisting in a small percentages of the amounts collected through the Value Added Tax collected by each Member State.

While the costs of Common Agricultural Policy could not be controlled and traditional own resources have continued to decline, the latter were soon proved insufficient. Accordingly, in June 1988, the European Council in Brussels has introduced a new own resource computed from own gross national product (GNP) of each Member State. It was also determined an upper limit of own resources which may be required to finance the expenditure as a percentage of the GNP of each Member State.

Agreement closed in Edinburgh in December 1992 increased the limit to 1.27% of Europe Union GNP, while making the first steps towards a further decrease of the importance of the VAT. This agreement came into force in early 1995.

In 1999, the Berlin European Council asked the Commission to prepare a new decision on own resources, which should provide adequate resources for the 2000-2006 period while respecting budgetary discipline structure. The new system was to be "fair, transparent, cost-effective and simple, being based on criteria that best reflects the ability of Member States to finance the European Union.

The European Union has a number of unique features that bring a strong influence on potential budgetary reforms. The level of centralization differs greatly from other political systems in which the government tends to be the main actor on the public finances stage. To view the subject from another perspective, you should know for example that the American Federal Government spends approximately 20% of the GDP of the United States or 20 times more than at the European level. It is clear, the perfect differences between central government and sub-national level in the budget operating mode, and so it is clear that this is not the model applied by the European budget. At European level there is also an obligation to balance the budget and expenditures are limited to a fairly rigid environment by imposing a long-term framework.

Three distinct types of governance characterize what the European Union is today. It is primarily involved in highly regulated activities, in the broadest sense of the word: traditional Community method of using powerful legal instruments (directives, regulations) is the center of its work. Secondly, the EU is a budget authority, although its influence in this area is very limited. It is clear that the European Union role in European Governance is more to regulate than to engage in financing policies. Indeed, it would not be hard to anyone to imagine a Union that would not have any role in determining public expenditures other than to cover their administration costs. Third, and ever more in present times, the EU has become a coordinating body for national policies. This type of coordination occurs in a wide range of processes, some of which (the Pact of Stability and Growth) is treaty based while others have a more intergovernmental nature. Lisbon strategy, clearly original, was part of the latter category, but it's release showed an assimilation of the coordination process based on treaties and other elements of regulatory activity.

Initially, to obtain the European Union budget, it is necessary to pen a preliminary budget, taking into account the needs of the EU's policy and its priorities for the next period. This plan is sent to the Council and take this fine plan, and now becomes a "draft budget". In the next phase, this „draft budget" is sent to the European Parliament whose power depends on the nature of expenditure. If the expenditures are classified as mandatory, the European Parliament only proposes the amendments and the Council has the power to determine the final amounts while for optional expenditures, the Parliament is the one who sets the budget. After two readings of each institution, the European Parliament is the one that adopts the final budget and the President of the Parliament signs it. Since that time, the European Budget appears and can not be attacked by any institution.

The budget debate was hard which is not surprising given the long list of topics contradictory. European Union budget is subject to inter-governmental negotiations, and often the subject of bargains, so it is rather a reflection of political preferences and historical compromises than a tool for maximizing welfare. The EU is faced with conducting the ambitious "Lisbon Agenda" which was opened in 2000 to create the most competitive economy "by 2010". These two problems have put two of the largest programs under budget spotlight: the Common Agricultural Policy and Structural Funds (SF), which together consume 80% of the EU budget.

Often, when the question of benefits and advantages arising of achieving the status of European Union member, money are the only ones that matters. Politicians assure there siblings that they attempt "to obtain the maximum" of the EU budget. What seems to be important is not economic and political stability in Europe, but rather balance the budget problem. Those who get more money back from the Community defeat in this competition. Sometimes you have the impression that the main desire of each country is to become a net recipient of European funds.

The advantages of being an European Union member state should not be measured in money, however, is quite interesting to see how much actually the European Union costs and how the money are spent. EU funds do not disappear somewhere in the bureaucracy in Brussels. But rather, nearly 85% of all money spent by the Union are in the States. For these amounts can be clearly identified which Member State takes money, what amount, for what part of its population, for which policy area and for which action.

The European Union budget is characterized by an important function of redistribution, the transfer of funds from richer regions to poorer ones in order to obtain convergence (structural policy).

The present budget of the European Union has long ceased to represent the priorities of European policy, being the result of decisions taken decades ago and of continuing growth adjusting decided under pressure of external events or for policy expansion. Increasing remoteness of initial needs and priorities of political support undermines the public opinion. EU Budget is ancient and is not caching the current needs of the Community and should be reformed by rethinking the basic procedures of taking decisions.

The budgetary balance sheet, clearly, do not show the whole picture of belonging to the European Union. The budget has its shortcomings and inconsistencies, however, a closer look to the EU budget will show how the public view on Comunity costs is not always consistent with the facts.

The European Union budget is designed through 3 elements. The financial perspective sets the parameters to be fit for EU spending for a seven years period. Own Resources Decision determines the maximum amount and type of income of the Comunity budget. The third element, the annual budget remains within the limits set by the first two elements, approve budget’s funds and defines the way in which they are to be allocated to individual areas.

At this time the European Union budget is financed by 3 categories of income. Traditional own resources (TOR) which consist of customs duties applied to goods imported from third countries, the agricultural tax and sugar leaves. Resources taken from the Value Added Tax (VAT) are calculated applying a percentage rates on uneven income of the harmonized VAT of each Member State. The biggest source of revenue (almost 70%) comes from the Member States' contributions calculated as a percentage of the Gross National Income (GNI). This source is defined as a source which balance the budget, i.e. the difference between expenses and other income sources. Percentage of GNI due by each Member State is computed ex-post as the difference between expenditure and income, revenues from the traditional resources and VAT. This residual value is divided between Member States in proportion equal to the amount they hold in the European Union total GNI, and is paid by each Member State from the national budget. In 2006, for example, before the start of the financial crisis represented almost 65% of total revenues.

On one hand, all countries are obsessed by limiting their contribution to the budget, and on the other hand, no country seems ready to give up their agenda of projects' spending. Most of the resources are transferred to the European Union budget from the national budget - which apparently violates the Treaty on own resources - and the Member States are trading division of funds between them, funds for expenditure on agriculture and structural funds, in order to obtain a net balance in their favor. National interest is limited to what is going to pay from the national wealth and what will the farmers and it's regions receive.

Today the European Union consists in two very different activities: first, reallocation of resources between Member States on the other hand, production through common policies and institutions of European "public goods". While extensive areas meet common goals, redistribution varies quite a lot, conceptually and analytically, from the actual production of "public goods" such as free movement of people, internal security or safety and plant health, "public goods" belonging to the allocating function the public budget as defined by Musgrave.

Redistribution is motivated more by considerations of justice and equality, then by an optimal allocation of resources to meet collective demand. At the European level the main redistributive programs are the allocation of Regional, Structural and Social Funds, including the use of structural funds of Commune Agricultural Policy (CAP)and Fisheries Policy and other issues. The main goal of these programs is to reduce income disparities within the Union and to foster economic convergence of poorer regions.

Another feature of expenditures redistribution which justify their separation is that they are managed by Member States and their regions everything under the direct control and guidance of the European Commission, rather than by the Commission directly.

The conflict generated by obtaining positive net balance for each Member State has become an impediment of the budget creation consistent with policy priorities today. Net positive taxpayers vote against any increases in resources since they fear that they will bear unequal burdens; program's beneficiaries on the other hand are voting against any loss of existing funds. As a result, the possibilities of diverting to new priorities are very small.

Hard negotiations over the net positive balance led to the proliferation of such clauses granting special treatment of some Member States, both in terms of revenues and expenses. Great Britain discount - equal to two thirds of ex-ante deficit - led for years to grant discounts for other countries (Austria, Germany, Netherlands and Sweden achieved reductions in financing these funds, together with reductions of VAT's percentage contributions; two of them are granted small contributions to GNI's resources). Total result, however, does not seem fair: countries with similar levels of economic development (prosperity) face net payments and received funds quite different. As a result, not only the budget has become increasingly opaque, but its legitimacy has been questioned ever more.

Serious changes in the budget can not be done until the problem of the net positive balances is resolved; any solution can be based on a generalized correction mechanism that will not only align the net balance automatically based on preset criteria, but will also treat all creditor Member States equal.

The ministers of finance of the European Union that have tried to coordinate and consolidate the budget according to the national tax incentives have brought government deficits to recession.

European union budget and main indicators 2007-2009

Severely hit by the biggest financial crisis since the Great Depression of 1930, the European Union economy plunge into a deep and reiterated recession, forcing governments to spend millions of Euros to stimulate economic growth.

While on the one hand, public expenditure increased to much, revenue from taxes decreased, and governments of the EU Member States were forced to pill up deficits.

Based on the European Commission evaluation, the average deficit in Member States this year is more than double, i.e. 4.5%, compared to the level calculated for 2008 of 2%.

In 2008, for the first time, most of the European Union budget (45%) was directed to measures that will lead to economic growth and measures that will lead to a greater cohesion in the EU. Agriculture continued to receive over 40% of the European funds.

Twelve of the 27 EU member states will reach budget deficits above 3% of Gross Domestic Product (GDP), the maximum allowed by the European Union rules in normal times.

Ministers of finance from the European Union said that while short-term budget deficit will increase, many Member States will remain strongly committed to long-term compliance with the principles of sound and sustainable public finances.

The ease adopting of this year's draft budget shows the Council determination to support the proper use of public Community funds and to respond to concerns of European citizens, whether they agree to support growth and competitiveness, policies favoring Member States that have joined the EU in 2004 and 2007, or the solidarity between the European Union and third countries.

In turn, the European Parliament have expressed support, although a little cautious, for the compromise reached with the Council regarding the 2009 European budget. This budget forecast payments for certain actions at a very low historical levels, including the ones made from the financial perspective.

However, European Parliament will remain attentive at the finance of needs, which in it's opinion, would seem necessary during the budgetary year. Mean time, Parliament does not want to compromise on the financial assistance for agricultural production in developing countries. The European Budget in 2009, indeed, disclose budget facilities of 1.8 billion Euros, spread over a period of 3 years, to help agricultural production in developing countries that were affected by rising prices of food, the Council accepting to use flexible instruments, till a upper limit of 420 million, as requested by the European Parliament. Despite the growing public demand for increased involvement in education, research and infrastructure, this expenditures have reached only one third of the costs opposite to those more than 40% of total expenditure on agriculture - the sector in decline.

Moreover, there is a growing demand for a greater emphasis on common policies such as foreign policy, defense, security, immigration and civil rights, and yet these areas are neglected.

Overall EU budget for 2009 will be approximately 116.09 billion Euro in the form of payment appropriations (0.89% of EU GDP) and approximately 133 billion Euro in commitment appropriations. This amount corresponds to an increase of 2.5% over 2008 and represents 1.03% of the total General National Income of the Community.

In the current economic climate, complementary objectives of competitiveness and cohesion for economic growth and employment should be strongly supported, and most of the budget that is about 45% or 60.2 billion Euros will be devoted to these goals.

The EU Budget between 2007-2009 – financial framework (aggregate)

Million Euro (current prices)

Indicators	2009	2008	2007
1.Suistanable growth, *from which:*	**60.195,88**	**58.337,95**	**54.854,33**
Competitiveness for growth and employment	11.769,00	11.082,00	9.367,55
Cohesion for growth and employment	48.426,88	47.255,95	45.486,78
2.Preservation and management of natural resources, *from which*	**56.121,44**	**55.559,71**	**55.850,23**
Market related expenditure and direct payments	41.131,36	41.006,49	42.311,66
3.Citizenship, freedom, security and justice, *from witch*	**1.514,89**	**1.634,91**	**1.443,63**
Freedom, security and justice	863,93	731,77	623,83
Citizenship	650,96	903,14	819,80
4.UE as a global player	**8.103,93**	**7.551,22**	**6.812,46**

5.Administration	**7.700,73**	**7.279,21**	**6.977,86**
6.Compensation	**209,11**	**206,64**	**444,65**
TOTAL	**133.845,98**	**130.569,64**	**126.383,16**

Competitiveness will be boosted by an increased support for the ***research*** framework program (+ 10.9%), the **competitiveness and *innovation*** framework program (+ 22.2%) and **lifelong learning** (+ 6.5%). Expenditure on structural and cohesion policy amounts to 48.4 billion Euro, according to the 2009 budget of the European Union.

In addition to promoting economic development and protecting natural resources, the European Union also seeks to meet the concerns of citizens in the area of freedom, security and justice. In the 2009 budget will be available for this purpose 863.9 million Euros and an additional amount of 651.0 million Euros was allocated for programs in the citizenship field, such as support for youth and culture. EU will maintain a central role as a global player, the budget for external actions increased by 7.3%, up to the amount of 8,1 billion Euro.

Administration costs related to all EU institutions amount to 7.7 billion euros. As regards the Commission, the European budget for 2009 provides the latest installment of the 250 new posts following the accession of Bulgaria and Romania in 2007.

It also notes an increase in some of the commitments on policy, such as:

- For the "Enterprise" from 510 million Euro in 2007 to 663.24 million Euro in 2008, a relative increase of 30%, which shows a growing interest of the European Union in encouraging the economy;
- For the "Energy and transport" from 1808.90 million Euro in 2007 to 2739.98 in 2009, i.e. 51%;
- or the "Research" from 3574.75 million Euro to 4071.76 million Euro, or approximately a 14% increase which should spur economic development through new discoveries or improvements in productive and economic processes.

Appropriations for commitments (selection on policy fields)

Millions Euros

Indicators	**2009**	**2008**	**2007**
1.Economic and financial affairs	441,90	398,48	494,94
2.Enterprise	663,24	596,51	510,03
3.Energy and transport	2.739,98	2.806,85	1.808,90
4.Research	4664,91	4.050,70	3.564,67
5.External relations	4.071.76	3.973,46	3.574,75
TOTAL appropriations for commitments	**130.997,83**	**127.896,12**	**126.383,16**

Conclusions

Examining the European budget we could see some of the effects of financial crisis over it:

- There is an increasing number of *reviews* of the financial perspective (it started with Galileo in 2007, continued with the food facility in 2008, and now the plan to revitalize the economy - projects for which the financial perspective has changed in 2007-2013 although institutional agreement between Parliament, Council and Commission prohibited this);
- First steps towards the creation of a *European public debt instrument* supported by Hungary and Latvia were made (Romania and Lithuania are following), supporting guaranteed by the Community budget. There are policy-makers that are already taking into consideration the Eurobonds;
- It had reinforced the impression that there are too many resources in Chapter 2 (Agriculture). From the perspective of countries like Romania, whose net beneficiary status depends largely on the access to resources in Chapter 2 and 1b (Cohesion for growth and employment), we are dealing with a negative trend. It is possible that major contributors to the Community budget to demand less generous allocation for agriculture in the near future.

The budgetary discipline of the community tends to be lossen as a result of the finacial crisis. Financial perspective loses the role of firm framework in financing the Comunity; the tendency is to create a public debt instrument that will weaken the dependence of the institutions over direct funding from Member States.

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