

CHANGES IN EUROPEAN POLICIES NEED TO REFORM THE EU BUDGET

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Abstract

The European Union's policy agenda is in a phase of profound modernisation. globalisation has brought about new challenges and issues like climate change, energy and migration have come to the centre of the European debate. Innovation, skills and the right business environment are more than ever at the core of the growth and jobs strategy. Citizens' desire to see European interests and European values projected worldwide has never been stronger. Enlargement has reinforced the need to promote social, economic and territorial cohesion.

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The budget is an important lever for the EU to deliver existing policy goals, to bring about change and to maximize the long-term impact of EU action.

The budget review is a unique opportunity for a thorough assessment of the EU budget and its financing, free from the constraints of a negotiation on a financial framework. It will take a long time horizon, to see how the budget can already be shaped to serve EU policies and to meet the challenges of the decades ahead. It will therefore not propose a new multi-annual financial framework for the period from 2014 – this task will be for the next Commission – nor the overall size and detailed breakdown of the EU budget. It will rather set out the structure and direction of the Union's future spending priorities, assessing what offers the best added value and most effective results. It will also examine how the budget works, how to get the right balance between continuity and responding to new challenges, and whether it should be managed differently. Finally, the review will take a fresh look at the best way of providing the resources necessary to fund EU policies.

The budget has proved a key instrument to realize the European Union's policy objectives. It represents an investment to further Europe's goals – and citizens expect and deserve the best possible return for that investment. This means ensuring that the budget is targeted to best effect, managed to the highest standards, and that it succeeds in bringing tangible improvements to the daily lives of citizens. That means a budget able to change to reflect changing priorities, and to accompany the process of European integration as it evolves.

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1. The Budget as a tool for changing priorities

EU policies have seen huge changes over past decades, and the budget has sought both to promote and reflect that evolution.

The EU budget has mirrored the key steps of European integration. The Single Market, enlargement, the growth of a global vision for Europe – such developments have always required shifts in the pattern of EU spending. 2008 will see another step in this path, as for the first time, policies specifically geared to growth and jobs will take the largest share of the EU budget.

The profile of EU spending has changed considerably over time: historically, the vast bulk of the EU budget has been concentrated in a relatively small number of policy areas. But both within and beyond these areas, the focus of spending and the policy objectives pursued have evolved. Budget reform always faces an inbuilt conservatism. But despite the political challenge of budget reform, significant changes and reorientations have been possible – even if the speed of response has sometimes lagged behind.

The structure of the budget as well as its size has continuously evolved:

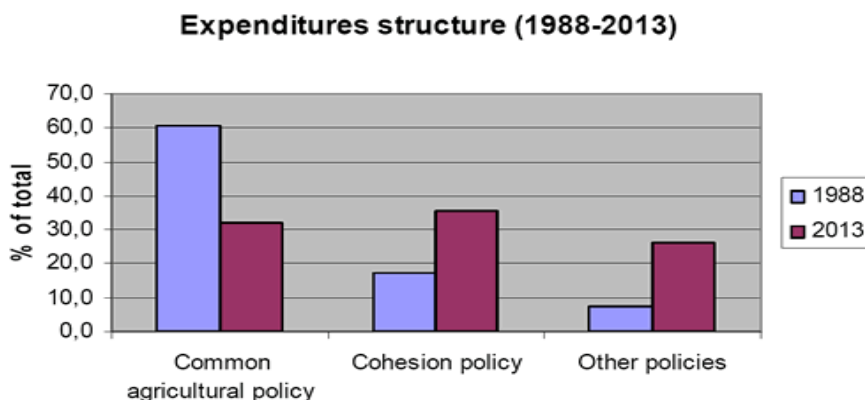
1. At the beginning of the integration process, each of the three European Communities had specific budgets. The first budget of the European Economic Community (EEC) was very small and covered exclusively administrative expenditure. The 2007 general budget is mainly an operating budget, authorising payment appropriations at a level of €115.5 billion for sustainable growth, the preservation of natural resources, citizenship, freedom security and justice and the Union's external action.

2. In 1965, payments for the Common Agricultural Policy (CAP) absorbed 35.7% of the budget and rose to 70.8% in 1985. In the first year of the 1988-1992 financial framework, CAP expenditure still represented 60.7% of the budget. By 2013, the share of traditional CAP spending (excluding rural development) will have almost halved (32%), following a decrease in real terms in the current financing period.

3. Only 6% of the European budget was spent on cohesion policy in 1965, a share which increased only slightly until the 1980s (10.8% in 1985). The Single European Act put a new emphasis on economic and social cohesion and was accompanied by a significant increase of cohesion spending. The amounts earmarked for structural actions had already risen to 17.2% by 1988, and will represent 35.7% of the EU budget in 2013, with at least two-thirds earmarked for competitiveness, growth and jobs.

4. Funding for other policies (mainly related to competitiveness, external actions and rural development) was originally very limited. In the first financial framework only 7.3% of the budget was reserved for these areas. But the new emphasis on economic development and competitiveness will see the share of such policies rise to 26% in 2013, of which 10.2% for competitiveness, 6.3% for external actions and 7.3% for rural development.

Graphic 1 Expenditures structure the UE Budget 1988-2013

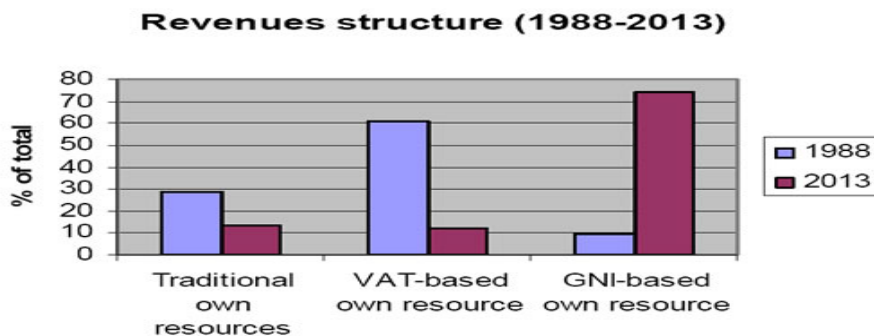


The spending policies for the period 2007-2013 put a new emphasis on the goals of growth and employment and on new policy directions such as freedom, security and justice. At the same time, the decision to undertake a review acknowledged that a more fundamental assessment is needed, to offer a long-term context to inform proposals for the next financial framework and beyond. The challenge is to develop a budget for the future, anticipating tomorrow's challenges in a world of rapid change.

2. The EU Own Resources System

The main source to finance the EU budget is now a resource based on the Member States' gross national income. This has grown to surpass the other sources, customs duties and agricultural levies ("traditional own resources"), and a resource based on a value added tax base. The own resources system has evolved significantly since the beginning of the first financial framework. In 1988, the GNI resource made up less than 11 % of EU financing, compared to 28 % provided by custom duties and agricultural levies and 57 % by the VAT-based own resource. In 2013, the GNI resource will provide about 74 % of the EU financing, against 13 % for customs and agricultural levies and 12 % for the VAT-based resource.

Graphic 2 Revenues structure the UE Budget 1988-2013



The sources and mechanisms of funding the EU budget should ensure an adequate funding of EU policies. They should be judged against commonly agreed principles such as economic efficiency, equity, stability, visibility and simplicity, administrative cost-effectiveness, financial autonomy and sufficiency. None of the funding sources of the EU budget satisfies all of these principles to the same extent, and it is difficult to conceive an "ideal" funding system. However, the resources structure should seek to comply with the most important funding principles to the greatest possible extent, while minimizing negative effects from the perspective of other relevant principles. To achieve that objective, choices have to be made on the principles and their relative importance.

Although the current system has succeeded in providing sufficient resources to finance the EU budget, there is nevertheless a continuous debate about whether the source of funding could be improved in order to better comply with the relevant financing principles. The two largest sources of revenue – the VAT and GNI based own resources – display many of the characteristics of national contributions and are often perceived as such. They are provided by national Treasuries and are sometimes presented as an expenditure item in national budgets. As a consequence, Member States often tend to judge EU policies and initiatives in terms of returns compared to their national contributions, rather than looking first at the overall value of pursuing certain policies at the European level.

The overall composition of the Union's own resources system will thus be an important element to be examined in the context of the review.

3. Conclusions

The budget review is a real opportunity for the EU to reflect on how they use one of its most important tools that has a direct impact on Europeans as citizens, consumers of the EU and taxpayers. More importantly, this logic, alongside the increasing focus placed on a narrow 'accounting' approach with the main objective of maximising returns, has led to tensions between Member States and has coloured the public debate about the value of EU spending and the benefits of EU membership itself.

Against this backdrop, the review will take a close look on whether and to what extent the various correction mechanisms which have emerged and their underlying principles are still justified. A consensus on spending priorities could already facilitate a reform of the EU own resources system. It is also in this context that possible alternative own resources should be examined very carefully, taking into account the national sovereignty on fiscal policy and, for instance, the cross-border mobility of some tax bases and the impact of such resources on related EU policies.

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