

THE BUDGET OF THE EUROPEAN UNION – PRESENT AND FUTURE

Prof. Dumitru TODOROI, PhD
Academy of Economical Sciences of Moldavia
Elena GLODEANU, PhD Student
Faculty of Economics and Business Administration
University of Craiova

1. Introduction

From the historical point of view, the budgets had an important weight in the evolution of the modern state and they remain fundamental for the contemporary government. The source of the European Union money (EU), the way that these are being spent and the processes through which they are distributed are the objective of some intense political negotiations. The budgets have a political weight, because the money represent the engagement of the resources for giving public services. The realization of a project first needs some political decisions to be made regarding the allocation and distribution of resources between the member states as well as the regions and social groups from these states.

The political aspects of the creation and management of the budgets had a considerable weight in the evolution of EU, from different reasons:

- **mainly**, the creation of an autonomous source of financing for the European Community (EC) was essential for the creation of a Community which could overpass the traditional model of an international organization;
- **secondly**, the budget related problems got together in an inevitable way with the debates regarding the role and the competence of the EU institutions, or between the European level and the national governance equilibrium;
- **thirdly**, the budgetary fluxes towards the member states are very visible, so there can be established

relatively easy the “winners” and “losers”. Because of that, it is probable that the budgetary politics could be influenced in a greater measure than the process of creating the norms in the national political conflicts and in the national electoral competition;

- **fourthly**, the objectives of the budget and the rules that government the utilization of the public finances from the Union are related to more bigger problems regarding the nature of the EU and it's evolution as a political regime.

The changing ideas regarding the role of the public finances in integration, shape the political agenda in domains as economical and monetary union, regional politics and social politics. The budget played an important role in the consolidation of the market integration, in facilitating the agreement in different domains, but also in the dynamic of politics of the integration.

An analyze of the budgetary politics allows underlining the relationship that exists between the political integration and the economical one. If the financial resources are a medium of consolidating the integrity of the market, the budget is a useful way of measuring the positive integration.

2. A summary of the communitarian budget

In the first years of the European Community, the budget was a financial instrument similar to the traditional international organizations. The budgetary treaties from 1970 and 1975 lead to a fundamental change of the

political frame in the budgetary processes. Through these treaties it has been established the constitutional frame of the Union, especially regarding the calendar, the procedures of adopting the budget and also the competences that the European organisms have.

In the same time was also created a system of "own resources" that gave EC an autonomous source of income. One of the fundamental laws was that this foundation of incomes must apply to all member states, regardless of their size, weight, types of expenses or their possibility of payment.

The later budgetary treaties modified the institutional frame through which there were taken decisions regarding the budget.

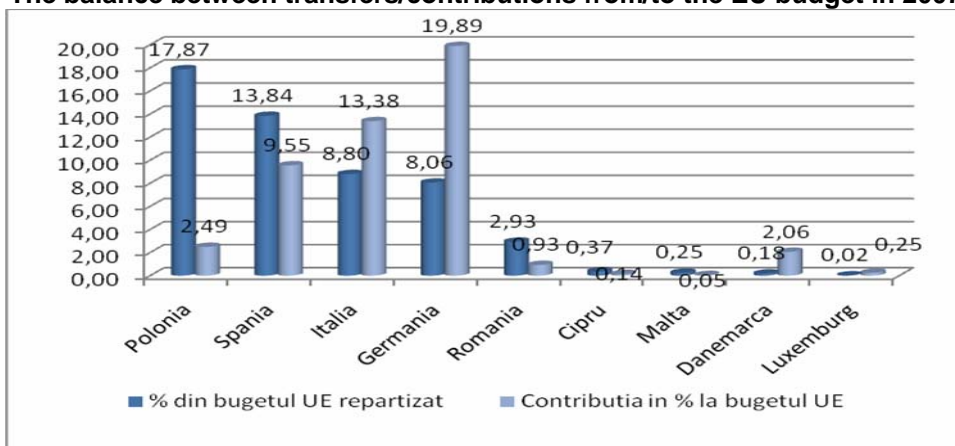
The European Parliament (EP) was given important budgetary competences, including the right to increase, reduce or distribute the expenses in domains classified as "unnecessary" expenses, to adopt or decline the budget and to make the annual discharge from holding of the Committee.

After 1970, the development of the budget as a real instrument of European

public politics was limited by an elementary fact, which influences also in the present the European finances. The EU's budget was and will remain small with the national gross product (NGP) of the Community and with the level of public expenses from the. From the year 1995, the European budget increased only with 8.2% in real terms, and the share from the gross national income has decreased, considering the fact that in the same time the national budgets increased in medium with 23%, so they almost tripled themselves.

At the European Council from Bruxelles from 11-13 February 1977 it has been established a level for the Community budget of 1,2% from the national gross income for expense and of 1,3% for orders and it was confirmed that the member states can retain 10% from the traditional own resources incomes to cover the collecting costs. Even if the budget has a small macro economical signification for the Union as a whole, it is very important for the member states which receive considerable transfers from the structural funds.

The balance between transfers/contributions from/to the EU budget in 2007



Source: Data updated from the official site of the European Committee

Like it results in the graphic above there exists countries like Poland, Spain and even Romania, for which the considerable transfers for the cohesion

politics, from the European Union's budget, have an important weight, even if we can not say the same thing about

their contribution to the communitarian budget.

The low size of the EU's budgetary resources, emphasizes an important aspect of the European political regime, so the significance of establishment as a main instrument of public powering the Union. The expansion of the establishment politics was an alternative at the creation of some extensive fiscal resources at the EU level, reflecting a perspective which limited the public financial role in integration.

This perspective was not from start dominant. In the '70, obtaining some considerable financial resources for the budget, in a shape of fiscal federalism was considered essential for entering. It was anticipated that will be required a higher budget to face the external shocks and of the fiscal stabilization, which the member states could not handle any more trough maintaining their own national currency.

In contrast, the opinion suggesting the possibility of a powerful public communitarian politics with limited financial resources gained ground in the '80 while the Keynesian economical politics were discredited in favor of the monetarist approaches. The Keynesian economical paradigm privileged the role of budgets in the macro economic holding, while the monetarist paradigms were not giving a central role to the public finances. From the mid '90, the member states have subordinated themselves the national budgets to the fiscal frame of the Economical and Monetary Union. This rule and other pressures on the national expenses did that many member states to accept with reticence important transfers of financial resources to the level of the EU.

The creation of the budgetary politics in the Union is based on "historical decisions", like, great wide solutions, an annual budgetary cycle, and thousand of holding administration decisions in every expense sector.

The administration of the budget takes many level of government, from the European Comity, to the central

government agencies, regional and local from the member states. The European Comity is responsible of the realization of the budgetary project every year, as well as the required proposals for shaping "great compromises". In a traditional way the European Comity was a "supporter" of a greater EU budget, for financing the joining politics, but in the '90 was obliged to pay more attention to the EU's expenses. In addition, the European Comity tries to play the role of honest intermediary in the budgetary battles, the member states asking it to write sensible thematically reports, like "own resources" and the net fluxes towards the member states.

3. Handling the communitarian budget

The fight for the communitarian budget resources and the inter-institutional battles regarding the budgetary power tend to put into shade some things like optimizing the resources, the responsibility and quality of the financial handling of the European Comity. These have become concerns more and more important of the budgetary politics, as the financial resources of the budget increased. In the '90 there have been made tries to improve the financial handling, but these proved to be unsatisfactory for preventing the bad financial handling, which developed to be an "explosive" matter in 1999, when the Santer Comity was forced to resign. The Court of Accounts made several notices about the financial handling of the communitarian budget.

The handling of a budget which implies kind of 400.000 individual authorizations of expenses and payments represents a major challenge. The execution of the EU's budget is characterized by a fragmentation of the responsibilities between the European Comity and the public authorities from the member states: 80% of the budget is handled in the name of the Union by the member states. The European Comity must be sustained in a great part on the deliver and application capacity of the

authorities from the member states. But the handling culture and the public finances vary a lot from a member state to another.

In the same time the complexity of the European norms, especially the agricultural ones, the border union and the regional politics, create little entrances that can be exploited by those who intend to fraud the EU's budget. It is not known for sure until what level the fraud affects the EU's budget: frequently there are some sayings between 7% and 10% of the budget, but these were not proven in a convincing way. The investigations about the frauds suggest that some member states action very slow in the investigations of the fraud of the EU's budget cases, because, in a paradox way, these would mean the involvement of some supplementary national resources to obtain less money from the communitarian budget.

The agreement from 1974 regarding the creation of the Court of Accounts underlined the institutional engagement in the favor of a more systematic responsibility. The reports of the Court of Accounts were in a constant way criticizing the financial handling of the European Comity. Knowing that the constant reports regarding fraud will decrease the public trust into the European integration, the European Comity and the European Council started to give more and more attention to this problem. So in March 2000 it was proposed a White Book regarding the reform strategy, in which one of the four priorities was referring to the reform of the financial handling and the control systems. This included a series of interconnected process, especially the agreement regarding a new financial rule codex, the creation of a new internal audit service in the European Comity, the creation of a new internal audit capacity in every service, the passage towards an activity budget, the decentralization of handling responsibility, at a higher lever of creation in financial handling, modernizing the accountant system as well as introducing in a systematical way

of some new system of information and handling.

The Court of Accounts analyze every year the process of reform trough it's annual report. This recognizes the existence of some progresses, but underlines the major problem represented by those parts of the budget which have a basis on a handling separated to the member states one.

4. Conclusions

The budgetary politics of the EU has elements of continuity, but also, change factors. From 1988, the multi annual compromises become normal, under the shape of a commune financial perspective, today being a part of the *acquis*. Trough tough and long negotiations it has been reached a settlement on a medium term of the annual budgetary cycle of the European Union, reducing so the danger of controversies and inter-institutional conflicts.

The Union's Budget does not correspond to the fiscal federalism principles and is improbable to evolve in this direction in the future. The fiscal federalism would require a lot higher budgetary resources then those available in the actual context of political forces from the Union. The several tries of the European Comity to reorientate the EU's budget towards the European public goods and so to reduce the redistributive aspects in the frame of nowadays "the EU's distributive ways" are being slowed down by the inflexibility of the actual budgetary inflexibility. The member states protect the distributive interest groups, but are criticizing the expense programs which benefits can not be given.

In what regards the whole institutional process we consider that it is worth to mention four characteristics of the recent evolutions:

- **mainly**, the European Comity it has to sustain high pressure of improving

the quality of financial handling done by these;

- **secondly**, even if the importance of the Economical and Financial Business Council is increasing, the budgetary arena, the center of the negotiation process of the multi annual agreements is constituted by ministers of finance, heads of states and governments. But in the member states frame, the ministries of finance impose a considerable influence over the creation

of national preferences in the budgetary matters.

- **thirdly**, in the shade of “great compromises”. In the European Parliament it has been installed as a second arm, of equal importance, of the budgetary authority and as an influent guardian of the budgetary execution;

- **fourthly**, the institutional structure established in 1988 has proven until now to be durable.

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