

## **Financing European Public Policies under New Challenges' Impact**

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**Abstract:** The paper deals to the idea that supranational and national public administrations face to new challenges not only in 2016. The changes in the European public policies have to be supported by changes in the financing process. As a result, new structures for the annual budgets started from 2015. A comparative analysis of the EU budgets for 2015, 2016, 2017 and the financial perspective 2014-2020 offers a scientific point of view about the present and future problems which have to be solved by public administration. Moreover, the analysis of the tendencies is realised in the context of other research in this topic area. The main conclusion of the analysis is that EU became very prudent in building its annual budgets and use buffer stock in the budget framework. The analysis and its conclusions are supported by the latest official statistical data, pertinent tables and diagrams.

**Keywords:** supranational and national administrations; annual budget; socio-economic challenges; budgetary mechanisms

### **1. Introduction**

The best theoretical approaches for public policies have not importance without adequate financing. This is why the financial support for these policies comes from the EU budgets.

The global crisis had a great impact on the European public policies' performances. This is why the recovery process is not finished for all Member States.

Moreover, EU had to face to new economic, social, political and military challenges. The first of them was the Greek crisis, which was not solved by Grexit, but which is not eliminated yet. This crisis asked for tough economic and social measures across the EU.

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It was followed by the refugees' crisis. This new crisis "succeeded" in breaking the traditional unity between the Member States in solving common problems. Moreover, the refugees created a lot of problems related to their social integration in the host European countries. In order to solve this problem, EU has to allocate supplementary money and to redefine its whole security and citizenship policy.

Brexit had an important shock on both sides of the channel. The EU28 has to change the organizational management and the policies in order to become more efficient as EU27. This process will lead to new power balance inside the EU. Other Member States, as Poland and Romania, can obtain better positions in the EU's management. And this process just started.

At least the right-wing parties were not able to obtain advantages from Brexit till now, but the political scepticism developed quickly.

The short term development has to point out at least the political environment in Italy, France and Spain. On the other hand, the forecasted referendums from Scotland and North Ireland will be very important for the future economic and social development in Europe.

All the above events lead to significant changes in budgetary approach in order to support public policies across the EU.

## **2. Related Work**

The EU budget, the European financial policy and its instruments are elements of a lot of scientific researches. Some of the latest ones, used in the paper, support the idea that financing right public policies represents the best way of socio-economic cohesion in an EU defined by a lot of contrasts nowadays.

A short history of the European Budget was focused on budgetary resources, their sources and the ways they were used. The analysis started to the impact of the Treaty of Lisbon on the budgetary procedures and on the EU budget philosophy, as well. An interesting contradiction was pointed out: the contradiction between the budget's principle of annularity and the financial perspective, which is built on medium term. Some aspects related to the need of a transparent budgetary system and new budgetary own resources are analyzed in the context of the general socio-economic development (Matthijs, 2010).

Other research is focused on the importance of the European budget in facing the impact of the recent global crisis. The authors put the peak of the crisis in 2009 and try to understand the changes in the incomes' distribution, including the impact of the austerity packages. As a result, the social expenditure stabilized in 2010 and started to decrease during 2011-2012. This trend was the result of the EU economy's weakness, which influenced the economic recovery, as well. The Member States faced to high disparities related to the social expenditure. These disparities are analyzed in connection to: market incomes, households' incomes and changes in tax-benefit systems. A distinct part of the analysis is focused on austerity packages across the EU, in connections to the mix of measures from each Member State (Bontout & Lokajickova, 2013).

The economic recovery process across the EU and the challenges related to Grexit and the refugees' crisis supported again new researches on EU finances. One of the latest starts from expenditure and contributions to the EU budget and finishes with the use of the EU funds in the UK, for example. Moreover, an interesting approach is that related to fraud management and anti-fraud issues. Technical annexes and pertinent statistical tables support the analysis and the conclusions (HM Treasury, 2015).

Some specialists focused on finding new sources of financing the EU budget. One of these sources is the green taxes, which have a huge potential. They are connected to the investment in sustainable development and can bring more budgetary incomes and better position for the EU as global environment actor (Adolf & Rohrig, 2016).

This literature review is not complete without researches on Brexit's impact on EU finances. One of them starts from the idea that Brexit will have a domino effect on average and long terms. From the financial point of view, the British economy is one of the biggest. As a result, the British contribution to the European budget will disappear. A less budget will cover less the European policies' financing. Moreover, Brexit can be followed by a success for Eurosceptic parties in Austria, Sweden or Denmark. On the other hand, Brexit will "force" EU to continue integration. The classical EU leaders (Germany and France) could be accompanied by new leaders as Poland and Romania. Finally, the EU has to focus on stabilising the euro, on solving the refugee crisis and on finishing its socio-economic recovery (Patel & Reh, 2016).

Last, but not the least, the impact of Brexit on EU finances has a British official point of view. The most important thing is that UK will continue to support the European budget until it will depart the EU. According to HM Treasury, the trend of the British

total contributions to the EU budget decreased in 2015, comparing to the previous two years (see Figure 1).

These total contributions represent the Gross contributions minus UK rebate. The EU annual budgets can be negotiated inside the multiannual financial perspective (Keep, 2016).

Unfortunately, the multiannual financial perspective 2014-2020 is lower than the previous one, 2007-2013 in 2011 prices.

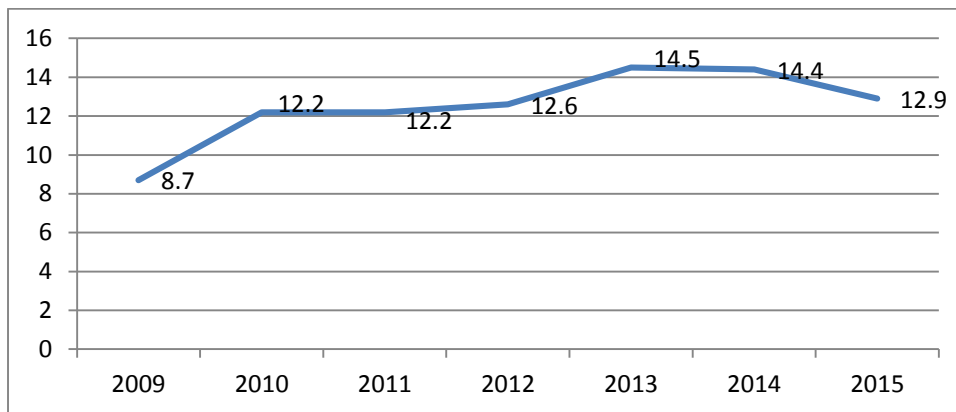
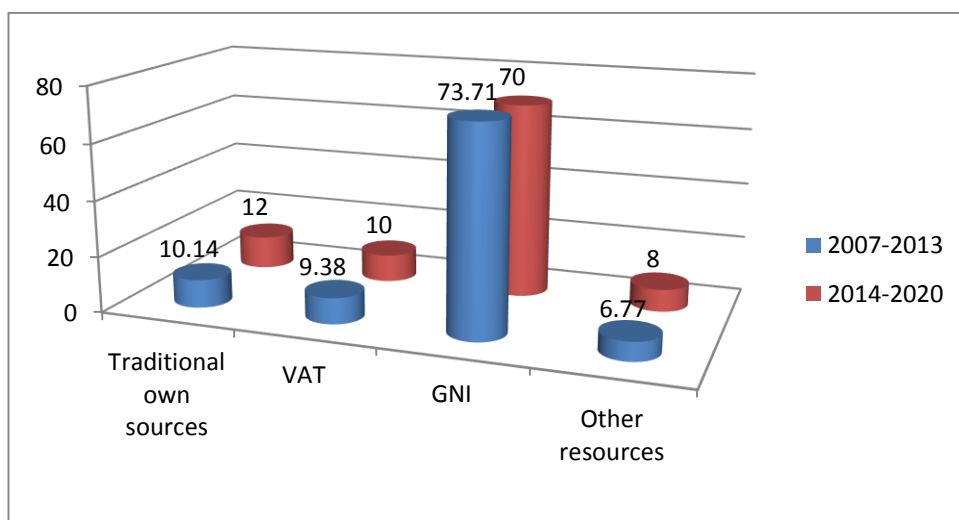


Figure 1. UK total contributions to the EU budget (billion £)

### 3. Financial Perspective 2014-2020 vs Annual Budgets

The present financial perspective was adopted by European Commission in 2013, but is maintained the structure of the own resources as in previous perspective (European Commission, 2013). On the other hand, the contribution of Gross National Income (GNI) to the European budget decreased by almost 4% compared to the previous financial perspective (see Figure 2).

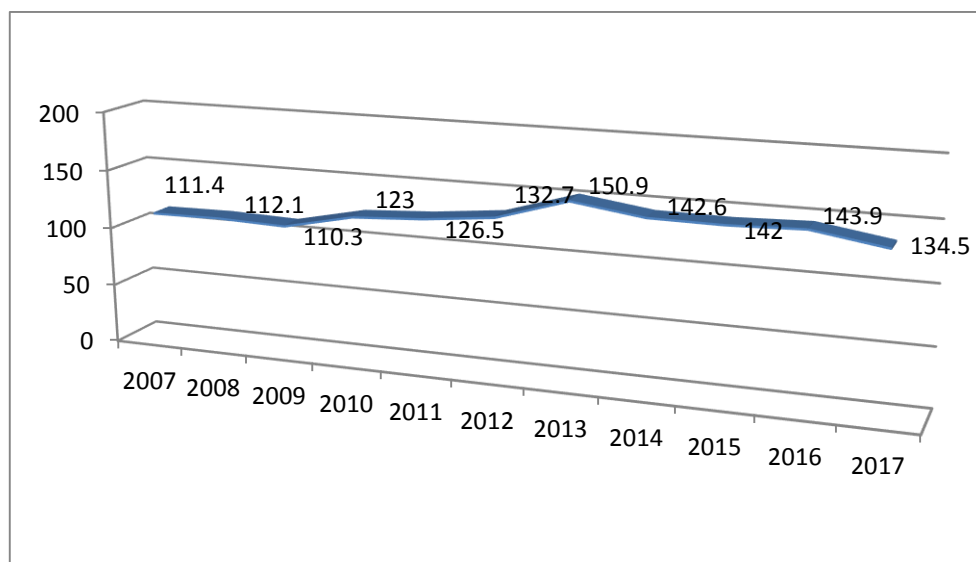


**Figure 2. Financial resources (% of total resources)**

Even that the own resources have to adopted by unanimity, the financial framework is considered a framework for discussing and adopting annual budgets.

On the other hand, the correction mechanisms (UK rebate, Lump-sum payments and VAT facilities) have their impact on the budget, as well.

The trend of the annual budgets is contradictory at least during 2007-2020. The budgetary payments, for example, increased during 2007-2013. A decrease during 2014-2015, was followed by other increase in 2016. Unfortunately, the payments will decrease by 1.6% in 2017 compared to 2016 (see Figure 3).



**Figure 3. Annual budgets (payments, billion euros)**

The financial perspective 2014-2020 presents higher total commitments than payments for each year. Smart and inclusive growth and Sustainable growth are the best financed headings in the financial perspective (see Table 1) (European Commission 2, 2013).

**Table 1. Financial perspective 2014-2020 (billion euros 2011)**

Appropriations by heading	2014	2015	2016	2017	2018	2019	2020
Smart and inclusive growth	60.283	61.725	62.771	64.238	65.528	67.214	69.004
Sustainable growth	55.883	55.060	54.261	53.448	52.466	51.503	50.558
Security and citizenship	2.053	2.075	2.154	2.232	2.312	2.391	2.469
Global Europe	7.854	8.083	8.281	8.375	8.553	8.764	8.794
Administration	8.218	8.385	8.589	8.807	9.007	9.206	9.417
Other	0.027	-	-	-	-	-	-
Total commitments	134.318	135.328	136.056	137.10	137.866	139.078	140.242
Total payments	128.030	131.095	131.046	126.777	129.778	130.893	130.781

#### **4. Public Administration vs New Challenges during 2015-2017**

Starting to 2015, EU administration had to face to important social, economic and political crises. The impact of these crises was different at national level. This is why the national public administrations had to find better solutions to obtain financial support from the European budget.

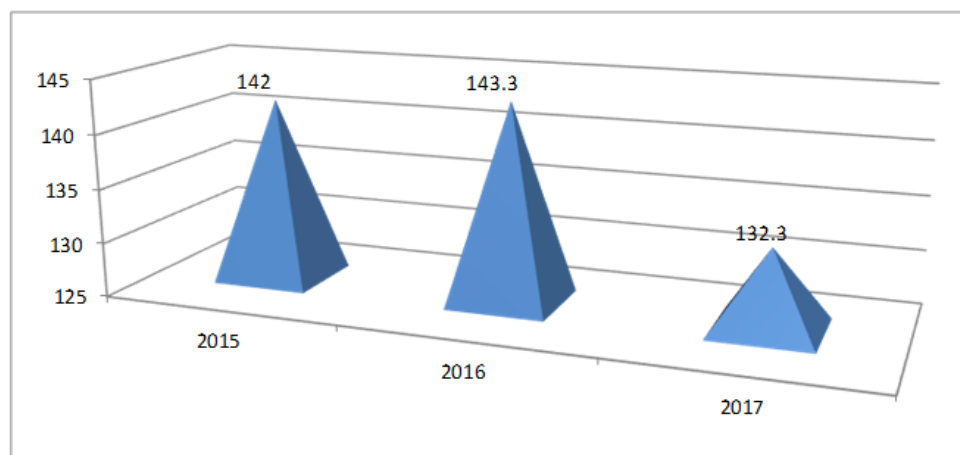
The socio-economic crisis in Greece in 2015 was followed by the refugee crisis. Both are far away of solving in 2017. Brexit became reality in 2016. All these challenges forced European administration to adapt itself in order to redefine EU and to continue the way from cohesion.

The annual budgets had to be changed in order to answer to these challenges. Finally, the annual budgets for 2015, 2016 and 2017 changed a lot compared to the financial perspective 2014-2020.

The EU budget for 2016, for example was built in order to face to the refugee crisis, to increase competitiveness and to support the economic recovery (European Commission, 2016).

On 17 November 2016, the budget for 2017 was defined in order to make “Europe more competitive and more secure”. Moreover, greater payments will be focused on “reception and integration of refugees” (European Commission 1, 2016).

A simple analysis of the budgets for the latest three years has to take into account not only the commitments and payments, but the inflation rate, as well. The payments’ change, for example, is presented in Figure 4. The data in this figure were quantified using inflation rates of 0.3% in 2016 and 1.6% in 2017 (European Commission 3, 2016).



**Figure 4. Budgetary payments (billion euros)**

The budget nominal change in % compared to 2016 is +1.7% for commitments and -1.6% for payments. The structure of the budgets for 2016 and 2017 is presented in Table 2.

**Table 2. EU budgets (million euros)**

	Commitments		Payments	
	2016	2017	2016	2017
1. Smart and inclusive growth:	69 841.2	74899.0	66 262.5	56522.0
Competitiveness for growth and jobs	19 010.0	21312.0	17 418.3	19321.0
Economic, social and territorial cohesion	50 831.2	53587.0	48 844.3	37201.0
2. Sustainable Growth: natural resources	62 484.2	58584.0	55 120.8	54914.0
Market related expenditure and direct aids	42 220.3	42613.0	42 212.0	42563.0
3. Security and Citizenship	4 052.0	4284.0	3 022.3	3787.0
4. Global Europe	9 167.0	10162.0	10 155.6	9483.0
5. Administration	8 935.2	9395.0	8 935.1	9394.0
Other special instruments	524.6	534.0	389.0	390.0
Total appropriations	155 004.2	157858.0	143 885.3	134490.0

The budget for 2017 increases payments for Security and Citizenship, Administration and Other special instruments compared to their amounts in 2016. The greatest increase was +25.3% for Security and Citizenship.

On the other hand, the payments for Smart and inclusive growth (-4.7%) and Global Europe (-6.6%) decreased, while the payment for Sustainable Growth is almost the same as in 2016.

The commitments increase for all appropriations in 2017, excepting Sustainable Growth. The greatest amounts come for Smart and inclusive growth (+7.2%) and Global Europe (+10.9%).

Moreover, the difference between commitments and payments in 2017 (23368 million euros) is greater than that in 2016 (11118.9 million euros). This difference was realized in order to have resources for unexpected new challenges in 2017.



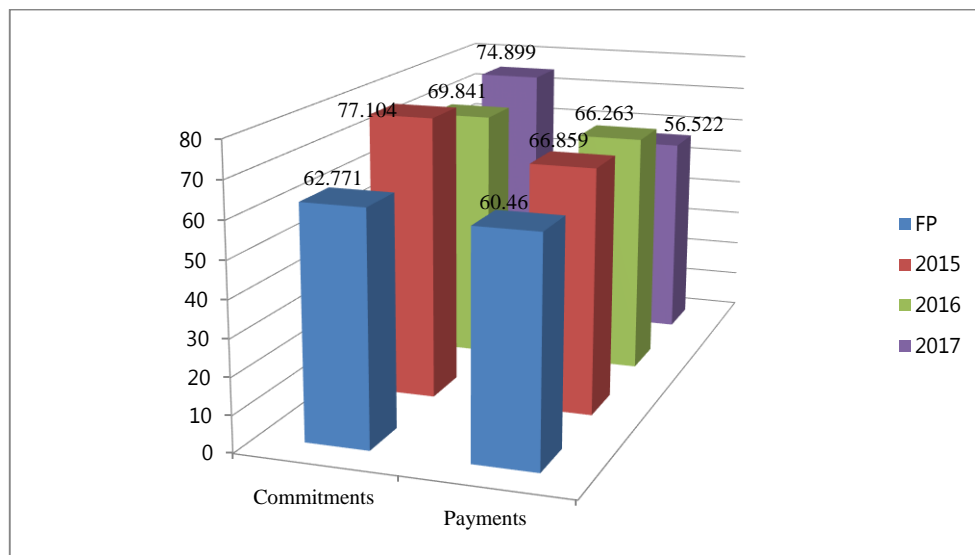
## 5. Budgetary Comparative Analysis

In order to see how the socio-economic and political challenges forces the EU administration to adapt the annual budgets, the data from the present financial perspective, from budgets for 2015, 2016 and 2017 have to be analyzed together. The comparative analysis is realized on all budgetary appropriations.

The Commitments related to Smart and inclusive growth increased in 2017, compared to 2016 and the financial perspective, but they are less than in 2015. The payments for this budgetary chapter are the lowest ones, compared to the other three budgets (see Figure 5).

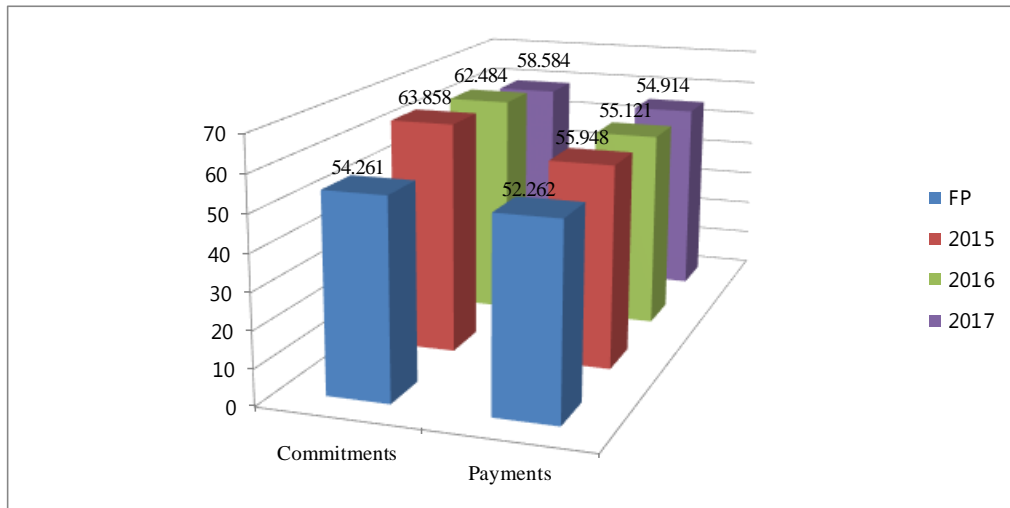
According to Figure 5, the commitments for Smart and inclusive growth increased by 7.2% in 2017 compared cu 2016 and decreased by 10.4% in 2016 compared to 2015. As a result the commitments for Smart and inclusive growth for 2017 are lower than in 2015.

The payment for the same budgetary chapter decrease by 4.7% in 2017 compared to 2016 and by 0.9% in 2016 compared to 2015. As a result, the payments related to Smart and inclusive growth in 2017 are less than the in all other three budgets.



**Figure 5. Commitments and payments related to Smart and inclusive growth (billion euros)**

The commitments and payments related to Sustainable growth in 2017 are less than in 2015 and 2016 and higher than in financial perspective. The peak of these appropriations was achieved in 2015 (see Figure 6).

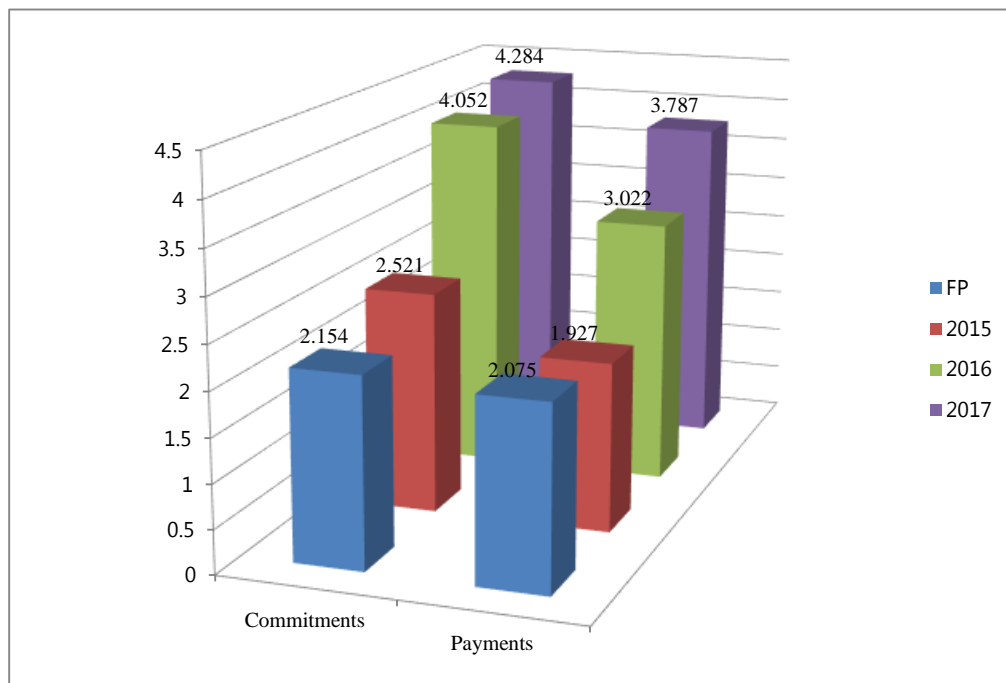


**Figure 6. Commitments and payments related to Sustainable growth (billion euros)**

In Figure 6, the commitments decreased by 6.2% in 2017 compared to 2016 and by 2.2% in 2016 compared to 2015. The same trend have the payments, which decreased by 0.1% in 2017 compared to 2016 and by 1.5% in 2016 compared to 2015.

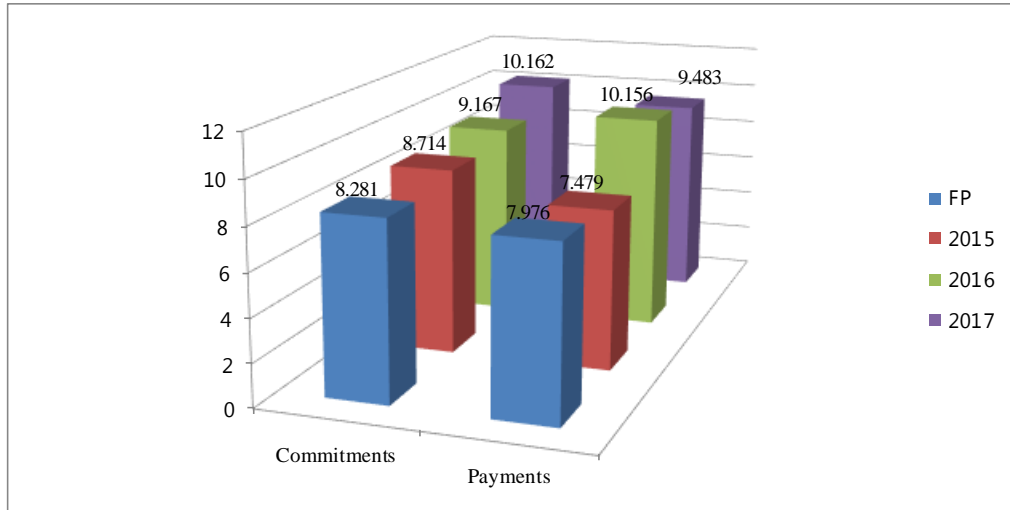
The commitments and payments related to Security and Citizenship increased dramatically in 2016. Moreover, the payments for this budgetary chapter increased again in 2017 (see Figure 7).

The commitments related to Security and Citizenship decreased by 0.2% in 2017 compared to 2016, but increased by 60.7% in 2016 compared to 2015. The bottom of this indicator is in the financial perspective, which didn't forecast the refugee crisis. On the other hand, the payments increased constantly during 2015-2017, by 56.8% in 2016 compared to 2015 and by 25.3% in 2017 compared to 2016.



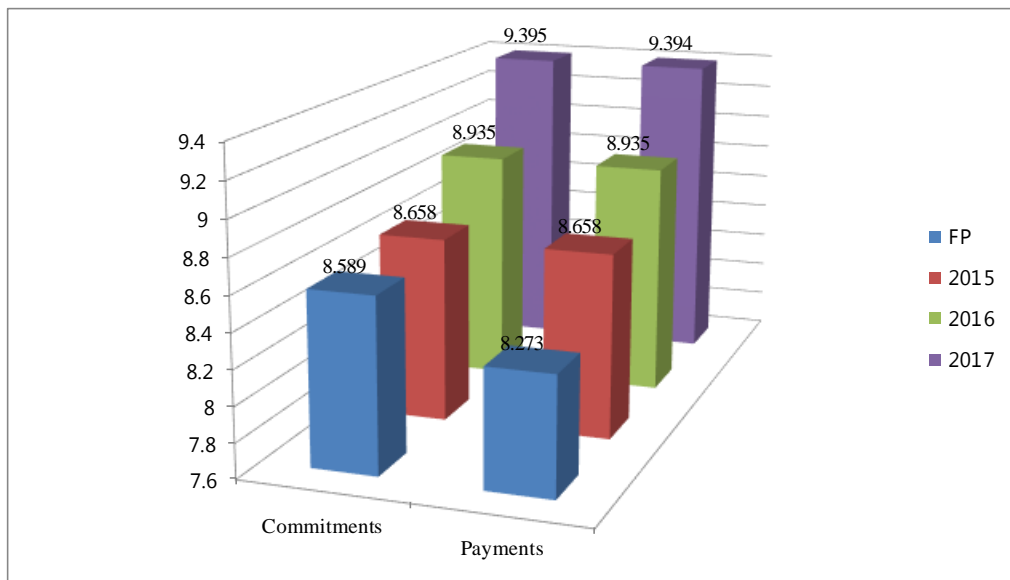
**Figure 7. Commitments and payments related to Security and Citizenship (billion euros)**

In connection to Security and Citizenship, the commitments for Global Europe increased in all four budgets. AS a result, the commitments increased by 10.9% in 2017 compared to 2016 and by **35.8%** in 2016 compared to 2015 (see Figure 8).



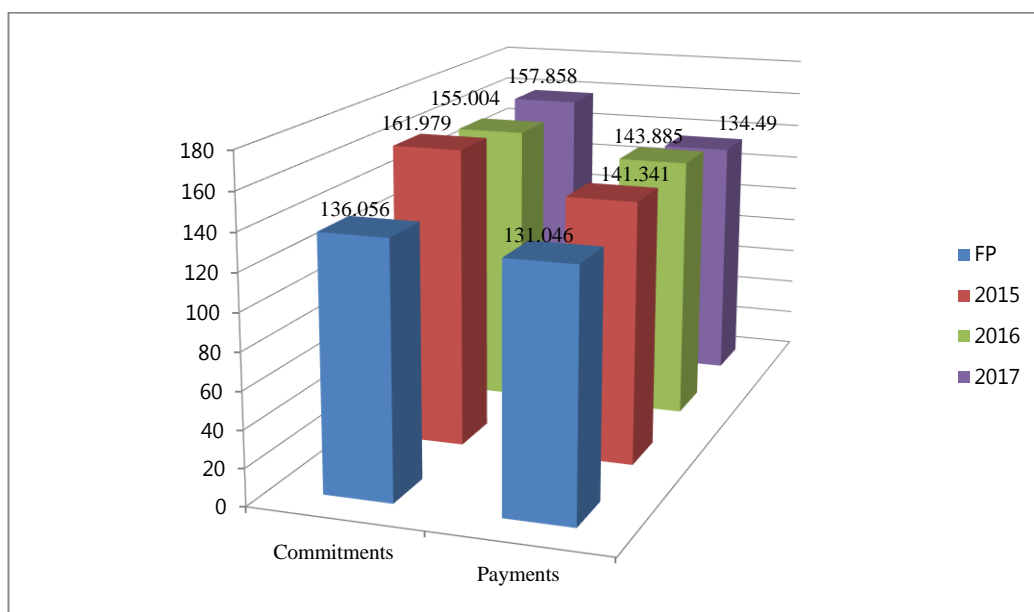
**Figure 8. Commitments and payments related to Global Europe (billion euros)**

The payments had oscillated. They increased to 35.8% in 2016 compared to 2015, but decreased by 6.6% in 2017, as well. The commitments and payments related to Administration increased annually. The appropriations in budget for 2016 are 3.2% greater than in budget for 2015 and increased by 5% in budget 2017 (see Figure 9).



**Figure 9. Commitments and payments related to Administration (billion euros)**

The analysis of the total appropriations for the four budgets leads to the following diagram:



**Figure 10. Commitments and payments related to total appropriations (billion euros)**

According to Figure 10, the commitments decreased by 4.5% in 2016 compared to 2015, but increase again to 1.7% in 2017. On the other hand, the payments increased by 1.8% in 2016, but decreased by 1.6% in 2017, as well.

## 6. Conclusions

The whole above analysis leads to some interesting conclusions. For the beginning, the European public administration was forced to change priorities in financing its policies across the Member States. As a result, the structure of the European budget was changed, in order to obtain maximum of financial support for the fight against the new socio-economic and political challenges. The first major changes were operated in budget for 2015, which put into discussion new political targets and new appropriations.

2016 brought an increase of the payments, even that the commitments decreased compared to the previous year. This implied new adjustments with direct impact on the Member States.

Finally, the budget for 2017 increased the commitments and decreased the payments compared to 2016. On the other hand, the difference between commitments and payments increased as buffer stock for financing unexpected new challenges. The changes in the budgets' structure created themselves supplementary challenges for the public administration in each Member State. The real effects of these challenges will be quantified on medium term.

## 7. Acknowledgement

The paper was realised with the support of the Centre for Juridical, Administrative, Social and Political Researches, <http://www.fsjsp.ugal.ro/cercetare.php>.

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