

Is the EU Budget Able to Support the Sustainable Development under the Global Crisis?

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Abstract: The present global crisis changes the expectations connected to the economic trend across the EU. Many Member States see the EU budget as an instrument able to support their individual economic recovery. This paper analyses the viability of the EU budget to do this. The approach is a critical one. The paper is divided into three parts: first of them analyses the financial framework during 2007-2013 and its weaknesses connected to lack of flexibility, lack of focus on European priorities, severe delays and input over performance.

A distinct part of the analysis is focused on the EU budget 2011 as the first budget voted under the Lisbon Treaty. Even that the EU budget 2011 draft was built based on an expenditures increase of 6.2%, the real final increase was only 2.9%.

At least, the paper analyses the EU budget 2012 draft which will achieve 132.7 billion Euros (4.9% greater than in 2011) and will be focused on the supporting of the European economy and the EU citizens.

The main conclusion of the paper is that the EU budget is far away of being an instrument against the present global crisis. The contradictions between the Member States can be found in the EU budget structure and financial allocation.

The analysis in this paper is supported by European Council, European Commission and Eurostat official documents and database, by pertinent statistical tables and diagrams.

Keywords: sustainable growth, global increasingly complex context, competitiveness, restructuration.

1. Introduction

The European Union budget reflects European priorities and current policies in every year. It is the act which authorises the financing of all community activities and their specific operations. The European Commission published its Communication on the EU Budget Review on October 2010. The negotiations about the new European budget will continue into 2012, and need to be completed by early to mid-2013.

According to the European Commission, the weaknesses of the present EU budget are: lack of flexibility, lack of focus on European priorities, severe delays and input over performance.

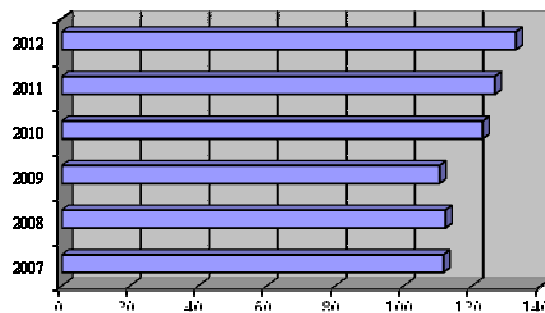


Figure 1 EU budget evolution (billion Euros)

Source: personal contribution

Even that the evolution, in the Figure 1, seems to be positive, the EU budget value increases only in 2010 (related to 2009) and 2012 (related to 2011). This is the result of the use of the inflation rates during 2007-2012. As a result, the budget value decreased by 2.14% in 2008 and by 2.56% in 2009. After a growth of 9.35% in 2010, the same budget will decrease by 0.12% in 2011 and will increase by 2.90% in 2012.

2. EU Budget during 2007-2013

The financial perspective 2007-2013 decreased, from eight to five chapters. This thing makes the system more rigid and allows the efficient use of the available resources.

During 2007-2013, the budget revenues will achieve 1025 billion Euros and will be focused on the fifth objectives. First objective is the sustainable growth and covers the structural funds, research and education (382 billion Euros). This objective is connected to efficiency and cohesion in economic growth and employment.

The second objective is natural resources' conservation and management and finances the CAP and the Environment Policy with 371 billion Euros.

The objective "Citizenship, liberty, security and justice" covers 10.7 billion Euros and is connected to justice and internal affairs' activities. This sum will cover the programs which sustain the European citizenship: exchanges between young people, town twinning and the European dimension of media and culture.

Under the objective "EU as global actor", 49.5 billion Euros will finance actions in favour of developing countries, human rights' promoting, foreign affairs and support for the neighbouring countries' development.

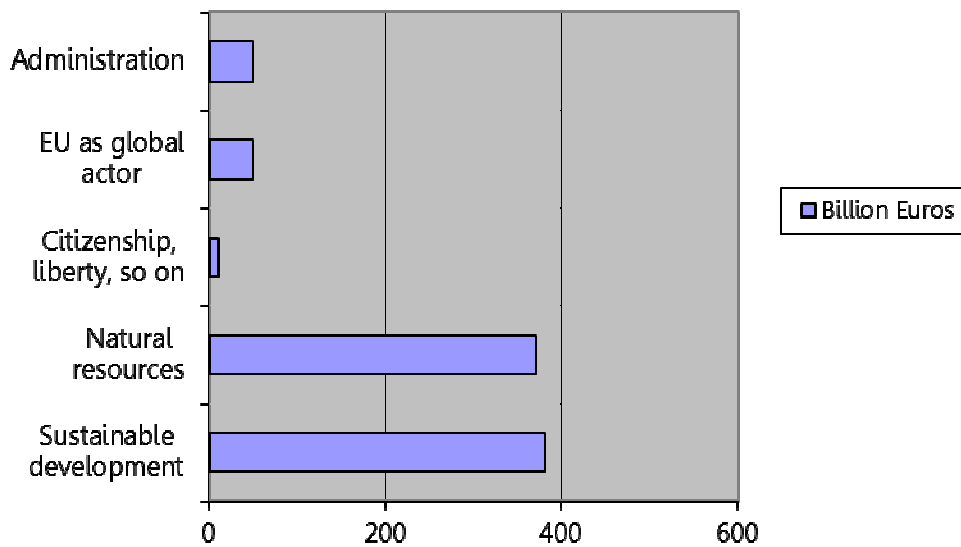


Figure 2 Objectives of 2007-2103 financial perspective

Source: personal contribution

The objective “Administration” (including translation services) will receive 49.8 billion Euros (5.75% from the total budget). The breakdown by year of the 2007-2013 financial perspective is presented in Table 1.

Table 1 2007-2013 financial perspective (billion Euros 2004)

Commitments and direct aids payments	2007	2008	2009	2010	2011	2012	2013
Sustainable development	58.735	61.875	64.895	67.350	69.795	72.865	75.950
Natural resources management	57.180	57.900	58.115	57.980	57.850	57.825	57.805
Citizenship, liberty, etc.	2.570	2.935	3.235	3.530	3.835	4.145	4.455
EU as global partner	11.280	12.115	12.885	13.720	14.495	15.115	15.740
Administration	3.675	3.815	3.950	4.090	4.225	4.365	4.500
Compensations	0.120	0.060	0.060	0	0	0	0
Total	133.560	138.700	143,140	146.670	150.200	154.315	158.450

In recent years, the EU accelerated the changes' rhythm and developed a political agenda for the future. As a result, it is possible to draft new policy challenges with high impact on the EU future efforts. The EU has to promote its values on the background of diversity and change under a global increasingly complex context.

The competition for resources and markets has become fiercer. The economic balance of power is changing. The opening of new enormous markets creates multiple opportunities for the EU, but tests the EU capacity to adapt to the structural changes and to manage their social effects.

The globalisation encourages the scientific and technological progress and offers to the EU an important role in knowledge, mobility, competitiveness and innovation promotion. EU is able to benefit of the advantages gave by its continental dimension in order to promote excellency and to transform it in growth. The EU economy's transformation into a knowledge and services economy is as deep as the previous shift from agriculture to industry. This changes the work essence. The information technology and the personal skills are particularly in demand. Too many young people (one of the six) give up too early at school and more have not the necessary basic skills for the knowledge economy.

The present levels of the birth rates will change the society's structure and the equilibrium and will generate important difficulties in the economic growth and the equity between generations. As a result, an important objective is to promote the demographic renewal, the extension of the active life in the best conditions, a more productive and more dynamic Europe, migrants' integration and the public finances' viability. Other important objectives are childcare and the professional life balancing, because the number of the families in which both parents work increased.

The solidarity and the Europe's commitment in favour of the social justice represent an important dimension of the European life style under globalisation. The EU made its budget an instrument to promote the economic development in low developed regions, but the regional disparities grew as a result of the enlargement. The budget has to be used better in supporting the socio-economic cohesion across the EU.

During 1988-2007, the EU population increased by 50%, as a result of the enlargement. In 1988, four of the 12 Member States had a GDP/capita below 75% of the EU average. Nowadays, the situation is not better.

The impact of the climate change on the environment and the EU society became a central element of the European agenda. The EU is interested in decreasing climate change by stopping the greenhouse gases emissions' growth and implementing those measures which are able to allow the adaptation to the climate change effects. The pressures of the climate change on the rural and the marine environment, the demographic changes and the consumers' demands evolution action together in order to give a new dimension to the EU policies connected to agriculture, natural environment, maritime areas and the rural society.

The secure, sustainable and competitive energy represents an important challenge for the society. The limited supply, the world demand growth and the urgent need to reduce emissions led to a new awareness of the need to create a European economy with a low carbon.

The pressure of the migration will affect powerfully the EU, because it is closed to the world poorest regions. The worsening situation in Southern and Eastern borders asks for a strong response from the EU, which has to be able to combine the secure borders, the innovative methods for managing migration and the efforts to combat the causes of the migration (wars, instability and poverty).

The public security and safety are based on the European dimension, by eliminating criminality and terrorism or by limiting the risks in transport, environment, health and security. The new risks connected to safety are divers, less visible and less forecasting.

The cooperation between different actors and instruments support the necessary instruments mix in order to obtain European efficient responses. The globalisation leads to the necessity that Europe to have an efficient presence at global level, in order to protect its interests and values. The reciprocal solidarity's extension and consolidation transform Europe in a more efficient actor on the world scene. The world changed and became more interdependent. As a result, a vital necessity for Europe is to intensify its efforts in order to ensure a stable and prosper neighbourhood. The differences between internal and foreign policies vanish and the important transverse policies have to be approached under an international framework.

The EU political action instruments have to face to the new challenges. As a result, the political resources will become a main component in the political mix which answers to the citizens' needs. Even that the needed financing do not derives from the EU budget, it can be important in fostering effective change.

In terms of budget, the European action should provide clear additional benefits in relation to individual action of the Member States, in order to develop policies which to promote the common European interest. The financial perspective 2007-2013 was adopted in December 2005, but the budgetary procedures are still difficult. As a result, the European Commission asked to an independent experts group to find solutions to simplify this procedure. The experts recommended a radical restructuration of the EU budget, in order to cover the development agenda....according to the Lisbon objectives".

3. EU Budget 2011

The EU budget 2011 is the first budget voted under the Lisbon Treaty. It was approved on 15th of December 2010 and is based on the three "main" financial resources and other various correction mechanisms (see Table 2).

According to Table 2, the greatest total national contributions to the EU budget had Germany, France, Italy and UK. At the opposite pole were Malta and Estonia.

Table 2 EU budget 2011 financing (million Euros)

Commitments and direct aids payments	2007	2008	2009	2010	2011	2012	2013
Sustainable development	58.735	61.875	64.895	67.350	69.795	72.865	75.950
Natural resources management	57.180	57.900	58.115	57.980	57.850	57.825	57.805

Citizenship, liberty, etc.	2.570	2.935	3.235	3.530	3.835	4.145	4.455
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* Gross National Product

Source: http://ec.europa.eu/budget/figures/2011/2011_en.cfm

VAT own resource covered 12.73% from the total national contributions to the EU budget and GNI own resource 87.27% (see Figure 3).

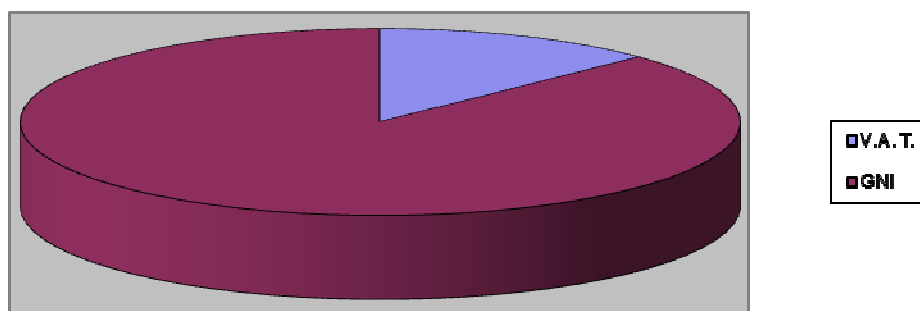


Figure 3 EU budget 2011 financing (%)

Source: personal contribution

One the other hand, EU Finance Ministries accepted that EU to examine their national draft budgets. This process will cover six months every year, starting on March 2011, in order to find all incompatibilities and imbalances. The process follows two steps. The European Commission realises a report which is analysed by the European Council in order to identify the main economic challenges and to give strategic recommendations.

The EU Member States have to present their average term budgetary objectives in April. During June-July, the European Commission will issue an opinion before the governments to finalize their budgets. The European Commission proposed this reform in order to improve the budgetary cooperation, but the UK was reluctant on this initiative.

Even that the EU budget 2011 draft was built based on a expenditures increase of 6.2%, the real final increase was only 2.9%.

4. EU Budget 2012 (draft)

The EU budget 2012 draft was adopted by the European Commission on 20th of April 2011 and was characterised “a delicate balancing act combining austerity and growth boosting measures for 500 million Europeans”. The draft budget will achieve 132.7 billion Euros (4.9% greater than in 2011) and will be focused on the supporting of the European economy and the EU citizens (see Table 3).

Table 3 The EU draft budget 2012

Objective	Billion Euros		% change from 2011		Margin (million Euros)	
	CA	PA	CA	PA	CA	PA
1. Sustainable Growth	68.0	57.7	+5.4	+8.3	151.5	
1a. Competitiveness for growth and employment	15.2	12.6	+12.6	+8.1	129.4	
1b. Cohesion for growth and employment	52.8	45.1	+3.4	+8.4	22.1	
2. Preservation and management of natural resources	60.2	57.9	+2.6	+2.8	651.6	
<i>of which Direct aids & market related expenditure</i>	44.2	44.1	+3.0	+3.1		
<i>of which Rural development, environment & fisheries</i>	15.9	13.8	+1.5	+1.9		
3. Citizenship, freedom, security and justice	2.0	1.5	(*) +11.0	(*) +3.6	81.1	
3a. Freedom, security and justice	1.3	0.9	+17.7	+6.8	65.6	
3b. Citizenship	0.7	0.6	(*) -0.1	(*) -0.3	15.5	
4. EU as a global player	9.0	7.3	+2.9	+0.8	246.7	
5. Administration	8.3	8.3	+1.3	+1.4	472.6	
<i>of which for the Commission</i>	3.3	3.3	0.0	0.0		
Total	147.4	132.7	+3.7	+4.9	1603.5	8815.3
In % of EU-27 GNI	1.12	1.01				

(*) excluding European Union Solidarity Fund

(CA: commitment appropriations - PA: payments appropriations)

Source: http://ec.europa.eu/budget/figures/2012/2012_en.cfm

The first issue appeared in May 2011, when the Member States announced that they are not able to accept an increase of 5% for the EU budget 2012. They proposed a budget growth rate of only 2.02%,

according to the forecasted inflation. As a result, the EU expenditures will reflect the national austerity measures.

On the other hand, increases the likelihood that governments oppose the similar proposals during 2014-2020. Under a forecasted inflation rate of 2% in 2012, the EU budget will be will be frozen and will achieve 129 billion Euros.

On April 2011, the European Commission supported the idea of increasing the budget in order to finance the regional development and the R&D activities. UK considered this proposal as unacceptable. At the beginning of July 2011, Germany declared that about 245 billion Euros from the 2007-2013 development funds were not yet allocated.

At last, the Member States' governments and the European Parliament have to establish the final EU Budget 2012.

5. Conclusions

The EU budget is often misunderstood. It is important as absolute value (above 125 billion Euros yearly) but it is less important as percentage of EU total public expenditure (about 2.5%-3.0%).

The budget caused periodic political crises, but it functioned as a stability vector for the EU development. Even that the budget value increased in real terms, its size relative to GDP decreased.

Nowadays, the EU budget supports the Member States to face the challenges of the global crisis. As a result, the EU budget stopped to support the socio-economic cohesion process in 2008. During 2008-2011, this budget tried to manage the punctual dysfunctions of the national economies.

In November 2011, is very difficult to forecast when the EU budget will be able to support again the cohesion policy and the sustainable development across the EU.

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