EU BUDGET AND EU POLICIES: EXISTING AND MISSING LINKS, POTENTIAL RESTRUCTURING[5]

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Abstract

The article presents the development of the expenditure side of the EU budget and examines its existing or missing linkages to EU common policies that have also gone through a substantial development. A brief summary of the key objectives of a budget (partially valid for the EU budget, as well) is followed by the presentation of the key issues at the „beginnings" as well as of the changes during the financial perspectives since the Delors I. package. This part is followed by the presentation of the current reform ideas and their potential consequences for EU budget expenditure.

Key words: European Union, budget, expenditure, common policies

1. Introduction

The EU budget was originally created in order to secure the financing of the common policies agreed upon the Member States. These common policies have been the result of an agreement on the basis of necessities and compromises at a given time. The development of the integration process and the changes of the external environment made new policies possible and necessary. The EU budget, however, could only partially follow this development, not least due to the attitude of the Member States paying increasing attention to their balance vis-à-vis the EU budget. This attitude has gradually pushed the original objective of (co-)financing jointly agreed common policies into the background.

In this article, we present the development of the expenditure side of the EU budget and examine it from the point of view of its linkages to EU common

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policies. After a brief summary of the basic (potential) objectives of a budget (partially valid for the EU budget, as well), we present the development of the structure of the expenditure side of the EU budget: after a brief presentation of the key issues at the „beginnings" (the first 18 years from the beginning of the functioning of the own resources system to the first major structural reform of the EU budget), we present systematically the changes during the financial perspectives since the Delors I. package. The systematic overview of past changes is necessary not only for the presentation of the development of the expenditure side of the common budget (and thus for showing the changes in the presence of common/community policies), but also for providing a context to (and a basis for a preliminary evaluation of) the current reform ideas of the European Commission; we tackle these ideas focusing their potential consequences for the EU budget. The article ends with concluding remarks.

2. Economic policy objectives and effects of the budget

In general, the budget reallocates the revenues of the state (or of a sub-state/supra-state organisation) in order to be able to finances its expenditures. Revenues are typically constituted by taxes, customs duties and different kinds of contributions; in the case of specific organisations, the revenue structure can also be different.

The (state) budget has three main economic policy effects: stabilisation, allocation and redistribution. Being conscious of the importance of these effects, states use the budget as an active tool of economic and social policy. The direct active macroeconomic role of the state budget emerged in the 1930s as a reaction to the Great Depression of 1929-1933; since then, states also use this tool in order to reach specific economic objectives.

The above general statements are only very partially valid for the EU budget. The reason is that the EU is not a state. In fact, it is a specific international organisation which is closer to a federation than to a centralised structure – however, it is, far from any type of state (being at the same time much more complex than a "simple" international organisation. This unique nature of the integration has consequences on its financing, as well: the tasks and principles described above appear only partly in the EU budget.

The main objective of the EU budget is to finance – in most cases, to contribute to the financing of – EU common policies, agreed upon by the Member States. Its limited size does not allow for the full financing of common policies, still, with its contribution, the EU budget is able to contribute to the development of the integration in the fields where the Member States judge this contribution important.

3. EU budget expenditure: trends and figures

As the development of the integration process has shown considerable differences in different periods, it is not surprising that the development of the EU budget has also reflected these differences. In order to make these differences and the steps taken in the different periods as visible as possible, we tackle the characteristics of the expenditure side of the EU budget in a chronological order, period by period.

3.1. The beginnings: from the domination of CAP to the need for more structural operations

In the first decades of the European integration process, the Common Agricultural Policy (CAP) expenditure was one of the major sources of budgetary conflicts between member states. CAP expenditure still represents close to 30% of the total expenditure of the EU budget; earlier, its share was much higher (in the 1970s, in general, well over 70% - see Table 1 for some characteristic figures). At a time when other common policies had not yet been developed, this expenditure heading had a decisive role on which Member States could see themselves as “winners” and “losers” of the budget.

Obviously, Member States having important agricultural production were more likely to enjoy substantial CAP support than those where agriculture was less important, or in some cases even marginal. The whole story of the UK rebate is also related to this issue; however, there have also been other aspects of the conflicts related to CAP expenditure.

Differences in the structure of agricultural production (related e.g. to the typical farm size and/or the agricultural products produced in the countries) have also resulted in considerable differences in CAP support. Generally, big farms have been more likely to be able to fulfil the requirements in order to be eligible for support, while this can be a much more difficult task for smaller producers. As a result, countries with bigger average size of agricultural units have had better chances for access to more CAP support.

Product structure has also been an important factor. Due to differences in product structure, it could happen that a country with a developed agricultural sector could get more financial support than a country of similar (or even bigger) size with a relatively similarly important but less developed agriculture. As a result, it has been possible for a rich Member State to get more support for its agricultural production than a poor one, while the relative size of their agriculture has been similar (e.g. Denmark and Portugal in the 1990s).

Problems of the CAP have always been intensively discussed, when the member states have tried to get to an agreement on the future of the EU budget. The regular occasions for this debate since 1988 have been the discussions over the mid-term financial perspectives.[6]

The 'monopolistic' situation of the CAP as the by far most important expenditure item of the EU budget was not seriously challenged until the 1980s. Structural operations became somewhat more important after the first enlargement round in 1973, due to the increased territorial and structural differences in the enlarged community. The big jump forward, however, was as a consequence of the Southern enlargement in the 1980s: after the accession of Greece (1981), Portugal and Spain (1986), the territorial and structural differences were substantially increased.

The challenges (and even their anticipation) stemming from this situation have caused turbulences around the EU budget; together with other factors, they were also there behind the deepening of the 'crisis of community finances' (already present since the accession of the UK) in the first half of the 1980s.[7]

The importance of this expenditure heading has been increasing gradually; the big jump forward was made in the late 1980s; from 1988, the Delors I. package has confirmed and systematised the changes.

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[6] In fact, with the exception of the 2007-2013 financial perspective. Of course, CAP was important then, too. However, French President Jacques Chirac and German Chancellor Gerhard Schröder agreed in 2002 on CAP expenditure until 2013. The other Member States – even if they were not happy with the way the issue had been handled – have at last approved the agreement. As a result, the negotiations on the financial perspective 2007-2013 did not include a full-fledged discussion of CAP expenditure (representing at that time close to half of total EU budget expenditure).

[7] On the causes and consequences of this crisis, see European Commission (2014), pp. 25-32.

Table 1. EU budget expenditure by main expenditure areas in selected years before the Delors I. package (payments, euro million, current prices)

Expenditure area/Year	1970	1975	1980	1985
EAGGF Guarantee	3108,1	4327,7	11291,9	19727,8
Structural Actions, of which:	95,4	375,3	1808,5	3702,9
EAGGF Orientation	58,4	76,7	314,6	685,5
ERDF	-	150,0	793,4	1610,0
ESF	37,0	148,6	700,5	1407,4
Research	63,4	115,9	364,2	677,9
External Actions	1,4	250,9	603,9	963,8
Administration	115,3	364,0	829,9	1304,8
Reimbursements and others	1,6	383,1	958,9	1490,1
Total	3385,2	5816,9	15857,3	27867,3

Source: Commission européenne, 2000, pp. 29-30.

3.2. The Delors I. package:1988-1992[8]

On the basis of its two documents issued in 1987 (on the conditions of the successful realisation of the objectives of the Single European Act and on the system of financing the common budget), the European Commission has made its proposals regarding the future orientation and spending of the CAP and of the Structural Funds; the proposals have also dealt with the overall reform of the common budget. It was in 1988 that the reform package (known today as the Delors I. package) was approved and entered into force; since then, it has become a cornerstone in the history of EU finances.

The overall objectives of the Delors I. package have been threefold:

- "Introducing additional resources into the financing of the common budget, in order to assure its smooth functioning in the period 1988–1992;
- On the expenditure side, a considerable increase of the weight of structural operations on the one hand, the limitation of the increase of agricultural expenditure on the other hand;
- A fairer burden-sharing of the member states in the financing of the common budget, so that the shares of the contributions of the member

[8] The description under points 3.2-3.5 uses the wider analysis (including also other aspects of the EU budget) of Szemlér, 2006 as a basis; the analysis of the present paper focuses on the expenditure side of the EU budget, contains additional (newer) information and figures (tables).

> states correspond better to their relative economic development level and power." (Szemlér, 2006, p. 4)

Focusing on expenditure, it is important to note that the ceiling for financing (from 1.15% to 1.20% of the EU total GNP regarding payments; regarding commitments, the ceiling for 1992 was established at 1.30% of EU total GNP) has been increased; the potential increase in spending has made stronger financing of key activities possible.[9]

In order to reduce the tensions accumulated before 1987, ensuring budgetary discipline was of key importance. The Council and, later on, the inter-institutional agreement signed by the Council, the European Commission and the European Parliament) has called on increased discipline regarding all institutions and all categories of expenditure.

The management of financial tensions and discipline require careful planning. In this respect, one of the biggest innovations of the Delors I. package has been the establishment of the institution of the mid-term financial perspective. The first financial perspective (a multiannual framework providing the key figures for the main expenditure items, leaving only 'fine-tuning' for the annual budget negotiations) has been prepared for a five-year period (1988-1992) in order to enhance the stable, predictable and harmonic functioning and development of the common budget.

Regarding expenditure, the limitation of CAP spending was seen as one of the main issues. In order to achieve this, the growth rate of agricultural expenses has been limited: it could not be higher than 74% of the growth rate of the total EU GNP. The treatment of agricultural stocks has also been modified; depreciation rules were of key importance in this respect. A monetary reserve has also been created in order to handle the effects (if necessary) of the changes in the USD/ECU exchange rate.

The other big issue related to expenditure has been the reform of structural operations. The objective has been to ensure the coordinated, effective and efficient use of the Structural Funds. The importance of the issue dramatically increased in the 1980s, as a result of the southern enlargement(s) of the EU.

The reaction has been a rapid increase in the financing of structural operations (see Table 2). It is also important that the package has included some key principles (concentration, programming, partnership and additionality) as well as a system of objectives for the use of the Structural Funds. The funds

[9] Of course, this step also required financing: the introduction of the GNP-resource (today: GNI-resource) has been of key importance in this respect.

could be used – in a co-ordinated form – in order to finance actions focusing on these objectives.

Table 2. Key figures of the financial perspective 1988-92 (based on the Interinstitutional Agreement of 29 June 1993 on budgetary discipline and improvement of the budgetary procedure)

Appropriations for commitments (million ECU at 1988 prices)	1988	1989	1990	1991	1992
1. EAGGF Guarantee	27 500	27 700	28 400	29 000	29 600
2. Structural operations	7 790	9 200	10 600	12 100	13 450
3. Policies with multiannual allocations (IMPs, research)	1 210	1 650	1 900	2 150	2 400
4. Other policies	2 103	2 385	2 500	2 700	2 800
of which: non-compulsory	1 646	1 801	1 860	1 910	1 970
5. Repayments and administration	5 700	4 950	4 500	4 000	3 550
(including financing of stock disposal)	1 240	1 400	1 400	1 400	1 400
6. Monetary reserve	1 000	1 000	1 000	1 000	1 000
Total	45 303	46 885	48 900	50 950	52 800
of which: compulsory	33 698	32 607	32 810	32 980	33 400
of which: non-compulsory	11 605	14 278	16 090	17 970	19 400
Payment appropriations required	43 779	45 300	46 900	48 600	50 100
of which: compulsory	33 640	32 604	32 740	32 910	33 110
of which: non-compulsory	10 139	12 696	14 160	15 690	16 990
Payment appropriations as % of GNP	1.12	1.14	1.15	1.16	1.17
Margin for unforeseen expenditure	0.03	0.03	0.03	0.03	0.03
Own resources required as % of GNP	1.15	1.17	1.18	1.19	1.20

Source: European Commission, 2008, p. 39.

3.3. Consolidation and fine-tuning: The Delors II. package (1993-1999)

The proposal of the European Commission for a new inter-institutional agreement as well as for a new financial perspective has put emphasis on the actualisation needs that occurred due to the following reasons:

- "The financial consequences of the reform of the Common Agricultural Policy in 1992 had to be taken into account;
- The experiences of the Structural Funds had to be evaluated, new regulation had to be formulated;
- The efficient functioning of the Single European Market as well as the international role of the Community necessitated changes;
- The consequences of the Treaty of Maastricht had to be handled adequately: the management of the Cohesion Fund and the financing of new Community tasks." (Szemlér, 2006, p. 6)

As a result of the agreement reached between the Member States at the European Council in Edinburgh on 11-12 December 1992, a gradual increase of the ceiling for own resources has been approved, according to which for 1999, the ceiling was established at 1.27% of EU GNP regarding appropriations for payments (including 0.01 % points reserved for unforeseen expenditure), at 1.335% of EU GNP regarding appropriations for commitments.

Modifications on the expenditure side (see Table 3) included the following measures:

- Agriculture: The limit of the increase of expenditure remained valid, and concerned all CAP expenditure. Monetary reserves (to handle the effects of possible changes in the USD/ECU exchange rate) decreased to ECU 500 million/year from 1995;
- Structural operations: The financing of this expenditure heading increased by 75% until 1999 (1992: ECU 17 billion, 1999: ECU 30 billion). Concentration has increased in structural operations (the weight of Objective 1 (focusing on the neediest regions of the EU has increased). The Cohesion Fund has been created; its objective has been to provide help to the least developed Member States (at that time: Greece, Ireland, Portugal and Spain) in developing infrastructure in the period of preparation for the Economic and Monetary Union (EMU);
- Internal policies: expenditure increased by 30% during the 7-year period; priorities were research and development (about 2/3 of total expenditure for internal policies) and Trans-European Networks (TEN).
- External actions: Two new reserves have been introduced: the so-called emergency and guarantee reserves. Expenditure for this heading increased by 55% between 1993 and 1999.
- Administration: Strict budgetary limits remained in force for this heading.

Table 3. Key figures of the financial perspective 1993-1999 (appropriations for commitments (million ECU at 1992 prices)

	1993	1994	1995	1996	1997	1998	1999
1. Agricultural guideline	35 230	35 095	35 722	36 364	37 023	37 697	38 389
2. Structural operations	21 277	21 885	23 480	24 990	26 526	28 240	30 000
— Cohesion Fund	1 500	1 750	2 000	2 250	2 500	2 550	2 600
— Structural Funds and other operations	19 777	20 135	21 480	22 740	24 026	25 690	27 400
3. Internal policies	3 940	4 084	4 323	4 520	4 710	4 910	5 100
4. External action	3 950	4 000	4 280	4 560	4 830	5 180	5 600
5. Administrative expenditure	3 280	3 380	3 580	3 690	3 800	3 850	3 900
6. Reserves	1 500	1 500	1 100	1 100	1 100	1 100	1 100
— Monetary reserve	1 000	1 000	500	500	500	500	500
— External action							
● emergency aid	200	200	300	300	300	300	300
● loan guarantees	300	300	300	300	300	300	300
Total appropriations for commitments	69 177	69 944	72 485	75 224	77 989	80 977	84 089
Appropriations for payments required	65 908	67 036	69 150	71 290	74 491	77 249	80 114
Appropriations for payments (% GNP)	1.20	1.19	1.20	1.21	1.23	1.25	1.26
Margin for unforeseen expenditure (% GNP)	0.01	0.01	0.01	0.01	0.01	0.01	
Own resources ceiling (% GNP)	1.20	1.20	1.21	1.22	1.24	1.26	1.27
Pro memoria: total external expenditure	4 450	4 500	4 880	5 160	5 430	5 780	6 200

Source: European Commission, 2008, p. 56.

The period 1993-1999 brought some new challenges that added to the actualisation needs we have already listed. Despite these challenges (the Europe-wide recession in 1992-1993 and the management of the enlargement with Austria, Finland and Sweden in 1995) the Delors II. package proved to be successful. It consolidated the achievements of its predecessor, and it was able to adapt the reforms to the new – partly visible in advance, partly unforeseen – challenges of the 1990s.

3.4. Preparing for the Eastern enlargement: 2000-2006

Beyond the 'traditional' challenges, the 2000-2006 financial perspective had to deal with an unprecedented event: the Eastern enlargement of the EU. The main difficulties at the time of the preparation of the financial perspective for the period 2000-2006 can be summarised as follows:

- "Decisions had to be taken at the same time on the mid-term financial perspective and on the reform of the Common Agricultural Policy and of the structural operations;
- Due to the stability requirements of the Economic and Monetary Union (the Maastricht criteria), there was no readiness for increasing the ceiling of own resources;
- The problem of unbalanced positions vis-a-vis the EU budget has become more important (concerned more member states) than before;
- The budget had to provide adequate resources for the eastward enlargement of the EU; to make this task even more complicated, the time and the magnitude of enlargement was unknown." (Szemlér, 2006, p. 8)

In July 1997, the European Commission published the document "Agenda 2000: For a stronger and wider Union" (European Commission, 1997), in which it outlined its ideas regarding the mid-term future development of the European integration process as well as the financing of the future (already enlarged) EU. The debates lasted almost two years, and it was in Berlin, 24-25 March 1999 where the European Council fixed an agreement regarding the financial perspective 2000-2006. Concerning expenditures, the most important elements of the agreement have been the following:

- The stabilisation of Community finances: The ceiling of 1.27% of Community GNP remained valid for payments, while expenditure for the EU-15 decreased from 2003 (to 0.97% of total EU GNP in 2006); thus, both spending on enlargement and budgetary discipline regarding the old Member States were part of the solution. The practical reason of such a solution was that a part of earlier commitments was to be paid in the period 2000-2006; for new commitments, due to the already mentioned reasons (net positions, budgetary discipline) a stricter limit has had to be applied.

- Main expenditure categories:

    - Agriculture: The framework (EUR 298 billion for the 2000-2006 financial perspective) has become lower than the amount initially proposed by the European Commission. The ceiling of expenditure on agriculture has been based not on the guideline, but on the calculated questions taking into account reform measures (SAPARD expenditure has also been part of the calculation). Sub-ceilings have been introduced for market intervention expenditure and rural development.

Intervention prices have decreased less than they would have done according to the initial proposal of the European Commission. As a consequence, the amount accessible for compensation for the price decrease has also become smaller.

Some proposals of the Commission related to agricultural expenditure have not been accepted: The co-financing of direct payments by the Member States (one of the potentially fundamental changes in the proposal) has been rejected as well as the degressivity (in time or according to farm size) of direct payments.

- Structural operations: The amounts agreed upon have become considerably smaller than the figures of the initial proposal of the European Commission. Under the financial perspective 2000-2006, EUR 195 billion have been accessible for the Structural Funds, while for the countries entitled to support from the Cohesion Fund EUR 18 billion (beyond Structural Funds transfers) has been available for the same period. The proposals of the European Commission related to the concentration (the modification of the system of the Objectives – a reduction of their number) and distribution of the Structural Funds as well as related to the regulation concerning their utilisation have been accepted.

- Other expenditure categories: Considerably lower ceilings than initially proposed by the European Commission for internal policies, external actions and administration have been agreed upon. The amounts proposed for the pre-accession funds (PHARE, SAPARD and ISPA) as well as the estimated budgetary costs of enlargement have been accepted without changes (the only difference between the figures for these items in the Agenda 2000 and in the Presidency Conclusions of the 1999 Berlin European Council are due to the different prices used (1997 prices in the Agenda 2000, 1999 prices in the Presidency Conclusions).

The preparation for the Eastern enlargement has also necessitated an innovative technical solution for the way the financial perspective has been planned. Table 4 presents us with the financial perspective of the EU-15; in this table, the Eastern enlargement has been 'separated' from the expenditures planned for the EU-15 (but these expenditures have included the financing of the pre-accession funds – these can be conceived as a special form of action of the EU-15 outside the EU). A separate table, presenting the hypothetical financial perspective for the EU-21 has also been prepared.

Table 4. Financial perspective of the EU-15, 2000–2006 (EUR million, 1999 prices, appropriations for commitments)

	2000	2001	2002	2003	2004	2005	2006
1. AGRICULTURE	**40 920**	**42 800**	**43 900**	**43 770**	**42 760**	**41 930**	**41 660**
CAP expenditure (excluding rural development)	36 620	38 480	39 570	39 430	38 410	37 570	37 290
Rural development and accompanying measures	4 300	4 320	4 330	4 340	4 350	4 360	4 370
2. STRUCTURAL OPERATIONS	**32 045**	**31 455**	**30 865**	**30 285**	**29 595**	**29 595**	**29 170**
Structural Funds	29 430	28 840	28 250	27 670	27 080	27 080	26 660
Cohesion Fund	2 615	2 615	2 615	2 615	2 515	2 515	2 510
3. INTERNAL POLICIES	**5 900**	**5 950**	**6 000**	**6 050**	**6 100**	**6 150**	**6 200**
4. EXTERNAL ACTION	**4 550**	**4 560**	**4 570**	**4 580**	**4 590**	**4 600**	**4 610**
5. ADMINISTRATION	**4 560**	**4 600**	**4 700**	**4 800**	**4 900**	**5 000**	**5 100**
6. RESERVES	**900**	**900**	**650**	**400**	**400**	**400**	**400**
Monetary reserve	500	500	250	0	0	0	0
Emergency aid reserve	200	200	200	200	200	200	200
Guarantee reserve	200	200	200	200	200	200	200
7. PRE-ACCESSION AID	**3 120**	**3 120**	**3 120**	**3 120**	**3 120**	**3 120**	**3 120**
Agriculture	520	520	520	520	520	520	520
Pre-accession structural instrument	1 040	1 040	1 040	1 040	1 040	1 040	1 040
PHARE (applicant countries)	1 560	1 560	1 560	1 560	1 560	1 560	1 560
TOTAL APPROPRIATIONS FOR COMMITMENTS	**91 995**	**93 385**	**93 805**	**93 005**	**91 465**	**90 795**	**90 260**
TOTAL APPROPRIATIONS FOR PAYMENTS	**89 590**	**91 070**	**94 130**	**94 740**	**91 720**	**89 910**	**89 310**
Appropriations for payments as % of GNP	1.13%	1.12%	1.13%	1.11%	1.05%	1.00%	0.97%
AVAILABLE FOR ACCESSION (appropriations for payments)			**4 140**	**6 710**	**8 890**	**11 440**	**14 220**
Agriculture			1 600	2 030	2 450	2 930	3 400
Other expenditure			2 540	4 680	6 440	8 510	10 820
CEILING ON APPROPRIATIONS FOR PAYMENTS	**89 590**	**91 070**	**98 270**	**101 450**	**100 610**	**101 350**	**103 530**
Ceiling on appropriations for payments as % of GNP	1.13%	1.12%	1.18%	1.19%	1.15%	1.13%	1.13%
Margin	0.14%	0.15%	0.09%	0.08%	0.12%	0.14%	0.14%
Own resources ceiling	**1.27%**	**1.27%**	**1.27%**	**1.27%**	**1.27%**	**1.27%**	**1.27%**

Source: European Council, 1999, Table A.

The reason for this differentiated handling of the enlargement has been the unknown date and magnitude of the enlargement (when, how many and which countries will join?). By ring-fencing the figures for enlargement, the EU has made sure of two important things: 1. the amounts planned to finance the enlargement could not be used for other purposes; 2. the eventual changes in the enlargement scenario (the scenario used for the financial perspective was that 6 countries (the so-called Luxembourg Group)[10] would join the EU

[10] Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia.

on 1 January 2002) could not endanger the realisation of the financial perspective for the EU-15 (without the figures for enlargement). As it turned out, this flexible solution had not only theoretical, but also practical importance: instead of 6 countries joining the EU on 1 January 2002, 10 countries[11] have become EU Member States on 1 May 2004. The financing of enlargement has been modified, while the financial perspective of the EU-15 (without the original figures of enlargement) has smoothly been realised.

3.5. Competitiveness in focus: 2007-2013

The negotiations on the 2007-2013 financial perspective have been full of tensions. Six net contributor countries (Austria, France, Germany, the Netherlands, Sweden and the UK have sent a letter to the President of the European Commission (Romano Prodi) on 15 December 2003 stating that they were not ready to accept a budget exceeding 1% of EU GNI. The letter was an early warning about the intensity and the nature of the debates that we could witness in the following two years.

The main issues of the debate have been the following:

- Net positions (emphasised during the negotiations mostly by the Netherlands and Sweden).
- The UK rebate – the (then) UK Prime Minister Tony Blair has made clear that he is only ready to negotiate about a decrease/limitation of the rebate if this change is combined with a decrease in CAP expenditure.
- CAP expenditure – as the amounts accessible for the financing of the CAP have been agreed by France and Germany (and after them, by the other Member States) much earlier, the issue was not reopened.

In June 2005, the representatives of the Member States failed to find an agreement. Half a year later – under UK Presidency – a compromise was reached. Despite the important (partly symbolic) changes in the names of the expenditure items, the 'minimalistic' approach (concentrating on the net positions) resulted in minimal results. In fact, for the expenditure side of the EU budget, no systemic changes, but a high number of country-specific exceptions were reached.

If the operation can still be considered more than 'optical tuning', it is due to two important changes: 1. the appearance of competitiveness, and that as part of the first expenditure heading; 2. the change in the place of agricultural expenditure in the EU budget: both its position (from Heading 1 to a sub-

[11] The countries of the Luxembourg Group plus Latvia, Lithuania, Malta and Slovakia.

heading of Heading 2) and its size (losing the first place that it had always occupied before) reflect its diminishing (but, of course, still not at all negligible) importance (see Table 5).

The world financial and economic crisis has clearly shown that the efforts in order to consolidate the results of the European integration process (among them the most tangible result, the single currency) were far from being satisfactory. The task to draw the lessons of the crisis (or even crises) remained for the next financial perspective.

Table 5. Overview of the financial perspective 2007-2013 (appropriations for commitments, EUR million, 2004 prices)

	2007	2008	2009	2010	2011	2012	2013	Total 2007-2013
1. Sustainable Growth	51 267	52 415	53 616	54 294	55 368	56 876	58 303	382 139
1a. Competitiveness for Growth and Employment	8 404	9 097	9 754	10 434	11 295	12 153	12 961	74 098
1b. Cohesion for Growth and Employment	42 863	43 318	43 862	43 860	44 073	44 723	45 342	308 041
2. Preservation and Management of Natural Resources	54 985	54 322	53 666	53 035	52 400	51 775	51 161	371 344
of which: market related expenditure and direct payments	43 120	42 697	42 279	41 864	41 453	41 047	40 645	293 105
3. Citizenship freedom security and justice	1 199	1 258	1 380	1 503	1 645	1 797	1 988	10 770
3a. Freedom Security and Justice	600	690	790	910	1 050	1 200	1 390	6 630
3b. Citizenship	599	568	590	593	595	597	598	4 140
4. EU as a global player	6 199	6 469	6 739	7 009	7 339	7 679	8 029	49 463
5. Administration (1)	6 633	6 818	6 973	7 111	7 255	7 400	7 610	49 800
6. Compensations	419	191	190	0	0	0	0	800
TOTAL COMMITMENT APPROPRIATIONS	120 702	121 473	122 564	122 952	124 007	125 527	127 091	864 316
as a percentage of GNI	1.10%	1.08%	1.07%	1.04%	1.03%	1.02%	1.01%	1.048%
TOTAL PAYMENT APPROPRIATIONS	116 650	119 620	111 990	118 280	115 860	119 410	118 970	820 780
as a percentage of GNI	1.06%	1.06%	0.97%	1.00%	0.96%	0.97%	0.94%	1.00%
Margin available	0.18%	0.18%	0.27%	0.24%	0.28%	0.27%	0.30%	0.24%
Own-Resources Ceiling as a percentage of GNI	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%	1.24%

(1) The expenditure on pensions included under the ceiling for this heading is calculated net of the staff contributions to the relevant scheme, within the limit of EUR 500 million at 2004 prices for the period 2007-2013.

Source: European Commission, 2014, p. 85.

3.6. Competitiveness, reactions to the crisis: 2014-2020

The 2014-2020 financial perspective was born in turbulent times: as a result of the consequences of the 2008 world financial and economic crisis in general, and also as a result of the following crisis of the Eurozone (the sovereign debt crisis in some Member States), a reinforcement of the EU budget for unforeseen situations seemed logical, as well as the elaboration of systemic reactions to the lessons learned from the crisis.

These reactions have actually been realised – but even those that had (sometimes very important) direct financial consequences have not appeared in the EU budget.[12] The debates continued to focus on competitiveness: the document that has made the initial proposal of the European Commission public was entitled "A budget for Europe 2020" (European Commission, 2011)[13].

Table 6 presents an overview of the 2014-2020 financial perspective. In the names of the headings, we can discover some keywords of the Europe 2020 Strategy (smart, inclusive, sustainable), but in other respects, we cannot see major changes regarding the content of the items. There have been some visible changes in the shares of the individual expenditure items: while 'Economic, social and territorial cohesion' as well as 'Sustainable Growth: Natural Resources' (including CAP-related expenditure) have seen their share decreasing, all other headings have experienced an increase compared to the previous financial perspective (see Table 7).

Looking at the rate of increase, it has been high in the case of 'Competitiveness for Growth and Jobs' and 'Security and Citizenship'. In the case of the latter, an important reason is the low basis, but the increase still demonstrates the pressure for more attention (and also EU spending). In the case of 'Competitiveness for Growth and Jobs', we can see an expenditure item whose share in total expenditure (payment appropriations) has increased from 9.2% during the period 2007-2012 to 13.1% in the financial perspective for the period 2014-2020. However, even the increased share of 'Competitiveness for Growth and Jobs' means that about 0.0013% of EU GNI is spent for this item in the EU budget. Size does matter – and the limited size

[12] The big 'rescue packages' for the Member States in trouble have been put together well before the 2014-2020 financial perspective, but part of them already parallel with the preparations for the negotiations on it.

[13] Europe 2020 has been the – in many respects restructured – continuation of the Lisbon Strategy.

of the EU budget limits its contribution to the realisation of the EU's objectives.

Table 6. Overview of the financial perspective 2014-2020 (appropriations for commitments, EUR million, 2011 prices)

	2014	2015	2016	2017	2018	2019	2020	Total 2014–2020
1 Smart and inclusive growth	60 283	61 725	62 771	64 238	65 528	67 214	69 004	450 763
1a Competitiveness for growth and jobs	15 605	16 321	16 726	17 693	18 490	19 700	21 079	125 614
1b Economic, social and territorial cohesion	44 678	45 404	46 045	46 545	47 038	47 514	47 925	325 149
2 Sustainable growth: natural resources	55 883	55 060	54 261	53 448	52 466	51 503	50 558	373 179
Of which: market related expenditure and direct payments	41 585	40 989	40 421	39 837	39 079	38 335	37 605	277 851
3 Security and citizenship	2 053	2 075	2 154	2 232	2 312	2 391	2 469	15 686
4 Global Europe	7 854	8 083	8 281	8 375	8 553	8 764	8 794	58 704
5 Administration	8 218	8 385	8 589	8 807	9 007	9 206	9 417	61 629
Of which: administrative expenditure of the institutions	6 649	6 791	6 955	7 110	7 278	7 425	7 590	49 798
6 Compensations	27	0	0	0	0	0	0	27
Total commitment appropriations	134 318	135 328	136 056	137 100	137 866	139 078	140 242	959 988
As a percentage of GNI	1.03 %	1.02 %	1.00 %	1.00 %	0.99 %	0.98 %	0.98 %	1.00 %
Total payment appropriations	128 030	131 095	131 046	126 777	129 778	130 893	130 781	908 400
As a percentage of GNI	0.98 %	0.98 %	0.97 %	0.92 %	0.93 %	0.93 %	0.91 %	0.95 %
Margin available	0.25 %	0.25 %	0.26 %	0.31 %	0.30 %	0.30 %	0.32 %	0.28 %
Own Resources Ceiling as a percentage of GNI	1.23 %	1.23 %	1.23 %	1.23 %	1.23 %	1.23 %	1.23 %	1.23 %

Source: European Council, 2013, p. 46.

Payment appropriations in the period 2014-2020 reach only 0.95% of EU GNI, while commitment appropriations just reach 1.00% of EU GNI (see Table 6). As a consequence, the total amount (of both payment and commitment appropriations) is smaller than in the previous financial perspective (calculated at 2011 prices for both periods; see Table 7).

Table 7. The expenditure side of the EU budget: 2014-2020 compared with 2007-2013 (in 2011 prices; structure of expenditures according to the headings of the 2014-2020 period)

	MFF 2014-2020	MFF 2007-2013	Comparison 2014-2020 vs. 2007-2013	
Commitment appropriations	*EUR mn*	*EUR mn*	*EUR*	%
1. Smart and Inclusive Growth	450.763	446.310	+4.5bn	+1.0%
1a. Competitiveness for Growth and Jobs	125 614	91 495	+34.1bn	+37.3%
1b. Economic, social and territorial cohesion	325 149	354 815	-29.7bn	-8.4%
2. Sustainable Growth: Natural Resources	373 179	420 682	-47.5bn	-11.3%
3. Security and Citizenship	15 686	12 366	+3.3bn	+26.8%
4. Global Europe	58 704	56 815	+1.9bn	+3.3%
5. Administration	61 629	57 082	+4.5bn	+8%
6. Compensations	27	n/a	+0.027bn	n/a
Total commitment appropriations	959 988	994 176	-35.2bn	-3.5%
as a percentage of GNI	*1.00%*	*1.12%*		
Total payment appropriations	908 400	942 778	-34.4bn	-3.7%
as a percentage of GNI	*0.95%*	*1.06%*		

Source: EU multiannual financial framework (MFF 2014-20), 2013, p. 3.

This is an unprecedented situation meaning that despite the deepening of the integration process (with EU policies becoming more and more complex) and despite the widening of the EU (with 28 Member States, the EU has more Members than ever before), the size of the budget has diminished in absolute terms. It means that today, four decades after the publication of the MacDougall Report (European Commission, 1977) that proposed a considerable increase of the relative size of the EU budget, we are far from even taking steps in that direction. Major reforms of the EU budget are still to be implemented.

4. 2017: Reform ideas concerning the expenditure side

It was in the middle of the 2014–2020 MFF that – as a reaction to the shock caused by the prospect of Brexit, after months of preparations – the European Commission published its 'White Paper on the Future of Europe' (European Commission, 2017a) on 1 March 2017. The document outlines five scenarios for the future development of the EU, ranging from a minimalist approach ('Nothing but the Single Market') through different scenarios (continuing the integration process more or less as it is managed now: 'Carrying on'; focusing on less areas: 'Doing less more efficiently'; allowing for differentiated (or multi-speed) integration: 'Those who want more do more') to a scenario of a considerable deepening of the integration with the participation of all Member States in all fields ('Doing much more together') (European Commission, 2017a, pp. 16–25).

During the months following the publication of the White Paper, the European Commission has published a series of so-called Reflection Papers, outlining in more detail the consequences of the various scenarios for different fields of the integration process. The 'Reflection Paper on the Future of EU Finances' (European Commission, 2017c) was published on 28 June 2017.[14]

The main characteristics of its scenarios (corresponding to the scenarios of the White Paper, with slight differences in their names) are presented in Table 8. We can see that under scenario 1 we can expect the EU budget to be about the same size as today. Scenarios 2 and 4 would result in an EU budget that is smaller than today, while scenarios 3 and 5 would result in a bigger EU budget.

The shares of the expenditure items are highly scenario-dependent. While (except for the 'idealistic' scenario 5) agricultural and cohesion expenditure are expected to lose from their actual shares (and potentially also in absolute terms), the future of the other items depends very much on the scenario applied.

[14] It has to be noted that two of the scenarios of the 'Reflection Paper on the Future of EU Finances' have closely been connected with the 'Reflection Paper on the Deepening of the Economic and Monetary Union' published by the European Commission on 31 May 2017 (European Commission, 2017b).

Table 8. Prospects for the large EU spending areas according to the 5 scenarios – by the European Commission

SCENARIOS	1 Carrying on	2 Doing less together	3 Those who want more do more	4 Radical redesign	5 Doing much more together
POLICY PRIORITIES	Taking forward current reform agenda	Mainly financing of functions needed for the single market	As in Scenario 1; additional budgets are made available by some Member States for the areas where they decide to do more	Financing of priorities with very high EU value added	Doing much more across policy areas
VOLUME	Broadly stable	Significantly lower	Somewhat higher	Lower	Significantly higher
COMPETITIVENESS	Slightly higher share	Same as in scenario 1 but significantly lower amount	Same as in scenario 1	Higher share	Higher share
ECONOMIC, SOCIAL AND TERRITORIAL COHESION	Lower share	Lower amount	Same as in scenario 1	Lower share	Higher amount
AGRICULTURE	Lower share	Lower amount	Same as in scenario 1	Lower share	Higher amount
SECURITY, DEFENCE, MIGRATION	Higher share	No funding	Higher share partly covered by willing Member States	Significantly higher share	Significantly higher share
EXTERNAL ACTION	Higher share	Lower amount	Higher share partly covered by willing Member States	Significantly higher share	Significantly higher share
ECONOMIC AND MONETARY UNION FISCAL CAPACITY			Macro-economic stabilisation function for euro area Member States		Macro-economic stabilisation function and a European Monetary Fund
REVENUE	Current system without rebates; other sources of revenue or fees finance the EU budget	Current system without rebates	Same as scenario 1; plus new policies financed only by participating Member States	Scenario 1 further simplified; new own resources	In depth reform beyond scenario 4; new own resources finance significant share of the EU budget

Source: European Commission, 2017c, p. 38.

The scenarios contain some potential new (or modified) expenditure items, thus pointing to different accents. It has to be noted that many more such items could be conceived[15]; the fact that the document of the European Commission includes some such items (Security, defence, migration (the new thing is that – as a reaction to the mass immigration to Europe – migration is named in the title of the item); Economic and Monetary Union fiscal capacity (something totally new)) means that they are considered seriously.

The rubrics related to the future of the EMU deserve special attention. According to scenarios 3 and 5, EMU can be equipped with support from the EU budget; under scenario 3, "macro-economic stabilisation function for euro area Member States", under scenario 5, "macro-economic stabilisation function and a European Monetary Fund" is mentioned. These options were subject to lively discussion during the second half of 2017; the discussion demonstrated that there is a non-negligible political support behind the ideas.[16]

5. Concluding remarks

The EU budget has the task of providing financial support to EU policies, jointly agreed by the member States of the EU. After the panorama of the development of the expenditure side of the EU budget during almost five decades, we can ask whether the EU budget is able to fulfil this task.

The answer to the question is a kind of 'yes, but'. The EU budget has contributed to the development of a number of key EU policies, helping the development of the integration process; CAP, structural and cohesion policies, lately competitiveness being the most important examples.

The budget could also (at least partially) follow the development of integration: this possibly is a reaction to (if not optimally, at least adequately) challenges such as the Southern and the Eastern enlargements. Despite all debates, tensions and changes, the functioning of the budget has been continuous, and, since 1988, this continuity has had no serious threats.

[15] See e.g. Szemlér–Eriksson, 2008 for ideas (stemming from a questionnaire survey and from country reports).

[16] The most spectacular evidence of this has been the speech of Emmanuel Macron on 26 September at the Sorbonne; speeches of EU leaders (including the President of the European Commission, Jean-Claude Juncker) and also reactions from Germany (including a non-paper from (former) Minister of Finances, a key figure of the history of the EMU, Wolfgang Schäuble) are also signs of the existence of political will to move forward in this respect; see Macron, 2017; Non-paper for paving the way towards a Stability Union, 2017.

With all these positive things in mind, we still cannot evaluate the fulfilment of the task positively. Despite all the positive developments, many fields of integration have had only minor shares in the EU budget or had no share at all; the most striking example for the latter is the absence of EMU from the EU budget. It has in most cases been very hard to achieve substantial changes in the structure of expenditure, even when changes in the world (and the resulting challenges) could have desired a firm reaction.

Considerations linked to net positions of Member States have led many times to compromises that have not solved the real (sometimes not even new) problems but only gained some time (of course, we should not deny that this can be in some cases also important, but if such solutions become rather the rule than exceptions, they can make the system less and less transparent and less and less open for reform).

In 2017, the European Commission and leaders of EU Member States expressed their intention to change the way integration is functioning today. At the moment, we don't know how far this momentum – born as a reaction to serious challenges – will bring the EU; one thing is clear: by now, it has created such an opportunity for reform that has not been seen in Europe for many years.

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