# REFLECTIONS ON THE FUTURE OF THE EU BUDGET, WITH SPECIAL REFERENCE TO THE POSITION OF THE NET BENEFICIARY COUNTRIES

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***Abstract:*** *Starting with individual households through large companies to countries, the preparation of the budget belongs to the most critical tasks and policy areas. It is not enough to agree on general objectives but consensus has to be created also concerning the disposable amount of money and, not less importantly, its adequate distribution among different priorities. Both the identification of objectives and the character of the compromising process largely exceed the area of direct economic issues. Annual and multi-annual budgets provide an excellent picture of the capacity of the society to think in interdisciplinary context and of its ability to reach reasonable compromises.*

***Keywords:*** *EU budget, multiannual financial package, redistribution, budget reform, net beneficiaries*

## General remarks: objectives and instruments

The above statement is particularly valid to the budget of the European Union, for in this case supra-national objectives have to be agreed on by member states. Despite the undeniable progress achieved in several areas of the European integration, it is well known that national budgets belong to the most sensitive and „sovereign" sphere of national decision-making. Thus, the consensus on the EU budget represents one of the most comprehensive tasks of the integration. This, however, is by far not a new phenomenon, for without a common agricultural policy that, in a simplified approach had resulted from a widespread agreement between France and Germany in the early sixties, and made expenditures in this field to the largest single item of the EU budget, we could hardly speak today of a functioning European integration. It is another question, that during several decades and particularly due to the rapidly changing global and European environment in the last years, it is just the Common Agricultural Policy that became the biggest barrier to the fundamental reforming of the common budget.

The preparatory and acceptance process of the EU budget has several pitfalls. First of all, the revenue side has to be secured increasingly by member state contributions that could „enrich" the national budgets of the members. Namely, the share of sovereign (community-level) own revenues that had predominated in the starting phase of the integration, turned to be marginal in the last period. Customs and duties imposed on goods imported from third countries amount to hardly 10 per cent of the current budget. In turn, the lion's share of the common budget is provided by VAT-based taxes and national contributions calculated on the basis of the gross national

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income (GNI) of the member countries. In principle, this money could be used for purposes of the respective national economies as well.

Second, both the number of areas to be financed (or kept to be financing) by the common budget and their effective demand for financing have been largely enhanced. Evidently, this is partly the consequence of the fact that the EU grew from a 15- to a 27-member community in the last years, for new members have automatically brought new interests into the integration. It is sufficient to refer to the fact that none of the new member's GDP per capita has reached the average of the EU-15, and most of them remained below the 75 per cent level that qualifies them to receive large structural (and cohesion) transfers. In addition, new global challenges emerged that increasingly call attention to include into the common budget new priorities that are expected to ensure longer-term competitiveness of the EU. Moreover, new financial needs are generated by new community-level policies that started to get clear expression in the last years (common foreign and security policy, neighborhood policy, international aid policy, justice and home affairs, etc.).

Third, and based on the above-mentioned features, well-defined target conflicts have appeared in two aspects. On the one hand, such a conflict is indicated by the imbalance between the financial requirements of the priorities to be supported by the budget and the limited resources available on the revenue side. On the other hand, the disposable amount of money to be spent in the framework of the common budget has started a distribution conflict among different priorities to be financed and among the member countries of the integration.

Fourth, and finally: the acceptance of the common budget needs consensus among all member states. In other words, each member state has veto right. In order to avoid the worst-case scenario that any of the members torpedoes the common budget by making use of its veto right, the community budget has to fulfill special national interests, at least up to the critical minimum of the compromise ability of each member country. This construction is the consequence of the divided competences between the different EU organs. It is true that the Commission is responsible for the elaboration and presentation of the community budget. However, the decision is in the competence of the Council and the Parliament. The weight of the former is decisive, since it is this level where the national veto right can be made use of. The Parliament, as the final approving organ can, and in fact, used to formulate different minor proposals for changing the final amount of the budget or slightly modifying the internal structure (both among main items and among or within the net contributing and net beneficiary member countries). Nevertheless, its influence on the budget is limited provided it would not like to blow up multi-annual financial programs. The final version of the budget requires a simple majority of the members of the Parliament, after having secured the support of each member state in the previous stage.[1]

The current financial package covering the period between 2007 and 2013 is characterized by two new features. In fact, to some extent, they were already present in the previous seven-year budgetary period (2000-2006) as well.

First, a fundamental „philosophical" change took place between the objectives to be financed and the resources available for

[1] *It is a fundamental difference to the mechanism of accepting national budgets, since no simple veto can be applied in order to prevent the budget from being accepted.*

financing. In previous periods, the financial needs of the agreed priorities have substantially affected the amount of money needed on the revenue side of the budget. In turn, after 2000 it were the obvious limits of the income side that defined which areas and to what extent can be supported within the common budget.[2] This „mentality and behavioural pattern” that is manifested not only on the highest level but also in the micro-level cooperation between firms and banks that are expected to finance major investments, is uniquely European and shows clear differences to the American pattern. The latter generally starts from the assumption that promising (profitable) enterprises should not have any financial limit, for the expected income provides the adequate guarantee to bank loans. In turn, the predominant European position is based on uncertainty, flight from risky undertakings and on preferring the status quo situation (the best is if nothing happens). Unfortunately, it is just this mentality that can be identified in two areas of shaping the EU budget. On the one hand, the budget is based on barriers on the revenue side, and, on the other, the implementation of future-building priorities, vital for the global competitiveness of Europe, is experiencing strict budgetary barriers.

Second, the EU has abandoned its previous practice based on the positive correlation between the total amount of the budget and the enlargement process of the integration. Each of the previous enlargements was accompanied by a substantial increase of the common budget, for the enlargement process raised new financial requirements. This was already the case with the first enlargement when the United Kingdom, Denmark and Ireland became members in 1973. More important changes occurred during the inclusion of the Mediterranean countries into the European integration, when new supportive mechanism and funds had to be created in order to start meaningful financial transfers to the less developed new member states. Even the enlargement by three highly developed countries in 1995 (Austria, Finland, Sweden) has increased the expenditure of the common budget (together with its revenues). In contrast, the first (and last) „big-bang” enlargement of the history of the EU was, from the very first moment, embedded into the framework of curtailing the common budget. For various reasons, already the financial framework for the period 2000 to 2006 required a redistribution within the original amounts agreed on in Berlin (March 1999). On the one hand, the original package calculated with the accession of six countries by 2002 and not with ten countries (to be sure, two years later, in 2004). On the other hand, some sources have to be created to include the new members into the direct payment system of the common agricultural policy.[3] The current financial framework (2007-2013) proved to be even more stingy, because not only the upper limit of the willingness of the net contributing member countries to finance the budget became manifest relatively early but also enhanced attention started to be devoted to the

*[2] See in detail Caesar (2006).*

*[3] At the moment of the approval of the financial framework for 2000-2006, accession negotiations were still in their early stage. The predominant position of most member countrties was that the new members should be excluded from the benefits of the direct payment system which, evidently, would have created a second-class membership. Since this situation was both economically and politically unsustainable, a compromise had to be elaborated between the interests of the new members (and of an integration on equal footing) and the possibilities of the budget. In fact, a 25 per cent initial level of direct payment financing (as compared to 100 per cent for EU-15 member countries) was agreed on by the restructuring of the financial resources earmarked for the new members (and not by curtailing the money available for EU-15 members).*

financing of future-oriented community-level priorities within an obviously shrinking budgetary framework. At first glance, this would have, among others, substantially curtailed the structural and cohesion funds that were considered vitally important by the new member countries in their catching-up effort to more prosperous old members. At the end of the day, and after several years of hard and difficult bargain, the new members were able to negotiate a relatively good financial position, especially, if we consider the historically unique external contribution they can rely on in the next years.[4]

Despite the new features, the fundamental dilemma of the future of the community budget did not change at all. This dilemma can be formulated in the following question: is it possible to create and finance a globally competitive Europe (European integration) from 1 per cent of the gross national income of the member countries? In this context, several comparisons can be made. One is the budget of federal States, in which expenditures on the federal level, including income transfers from higher to less developed regions (counties, states), represent a substantial share of the respective GNI (sometimes reaching 10 per cent). Of course, it should not be neglected that in all cases we have to do with political unions (USA, Australia, Canada but also Germany, Austria, Belgium and Spain), a goal from which the European integration is still far away. Another possible comparison is offered in the context of the national budgets of EU members. While the member countries used to centralize 35 to 55 per cent of their national income in the national budget, the EU budget has to function with 1 per cent, or 2 to 3 per cent of the cumulated national budgets of the member countries. This proportion could only be changed if the member countries were able and ready to reassess the relationship between their „national" and EU-level priorities[5] by giving priority to community-level objectives based on the future-oriented and sustainable development of the entire integration (of which, all of them, are members). A third comparison can be based on the evaluation of key scientific analyses and expert documents that, through decades, have been arguing in favour of a much larger EU budget. Depending on the sources, the desirable volume of the common budget was set between 3 to 7 per cent of the aggregate national income of the member countries. It is needless to stress that all these surveys started from the common interests, objectives and values of the European integration and not from the de facto available amount of financial resources. In other words, their key approach was that it is the necessary common tasks that have to define both the size and the structure of the revenue side of the budget and not the limited willingness of the financial contribution by (most) member countries.

### Fundamental objectives of the common budget

Following the request of the Council from June 2004, the Commission defined three fundamental criteria of the community budget.

(a) Effectiveness means that, in certain cases, the given objectives can only be reached in the framework of community-level financing.

(b) Efficiency is understood in a way that

[4] *However, a comparison with previously joined less developed countries is by far not as favourable.*
[5] *In fact, most EU-level priorities can (or should) rightly be considered as national priorities as well.*

community-level financing is expected to generate better results and higher value production than those to be reached in case of national financing.

(c) Synergy refers to the fact that projects financed by the common budget generate spill-over effects or improve the framework conditions of implementing national programs, either by stimulating such programs or by complementing national projects.[6]

Key documents of the European integration state that the community-level budget has to finance common objectives that represent common and fundamental values of the integration shared and represented by all member states. Even more importantly, the community budget is responsible to finance the implementation of common policies. At the same time, it is similarly underlined that the common budget is not allowed to (essentially) serve redistribution goals. Based on the current state of EU competences, and following the above mentioned interpretation, three areas are entitled to receive financial resources without any reservation - from the common budget:

- guaranteeing fundamental human rights, including the „European values",
- the competition policy,
- the common external economic policy.

The second largest individual item of the current budget, namely the mitigation of economic gap among differently developed member countries and the support to the modernization and catching-up efforts of the less developed members through structural and cohesion policies fits into the first area, for it represents an important element of „European values". Despite the fact that the common agricultural policy represents a true community-level policy, at least with reference to the criteria mentioned above, it is more difficult to find justification for its incorporation into the common budget, since these resources mainly represent redistribution of income and generate, to a limited extent only, development.

## The chance of breaking out of the „trap of redistribution"

Considering the current situation, the contradiction between the original goals and the actual structure of the common budget, on the one hand, as well as subordination of the budget to the willingness to contribute of the member countries, on the other hand, have resulted in a trap situation. While the development of selected community-level policies indicates qualitative improvement and further challenges appear as a result of globalization, the community budget seems to be less and less prepared to appropriately manage the new tasks. Thus, after 2013, the new budget of the EU should return to the original objectives. Unfortunately, at the moment, there is no such sign. It is much more likely that the narrow-minded political bargaining that characterized the previous decade will keep on surviving or even become manifest in a more acute form. Evidently, any budgetary breakthrough is conditioned on the long-term financial security that would require the fundamental restructuring of the revenue side of the budget. In this process, three basic principles have to be taken into account, even if, in any compromise package, none of them could be fully represented and some mutual allowances have to be made. These principles are: equality, efficiency and solidarity.

[6] *European Commission (2004).*

Although it still belongs to the realm of fantasy, it is not superfluous to deal with another factor of a potential budgetary breakthrough. Such a situation could be generated both by global and European developments in the next decade. Moreover, a similar trend can already be observed in the changing philosophy of the EU-member Scandinavian countries. According to this experiment (or, may be better, an already established experience), the traditional redistributional functions of the State have been weakening, while the State does not leave the sphere of economic policy-making. Just the opposite, it starts strengthening its active role in creating competitive conditions for the long-term and sustainable development. In consequence, the pattern of the „developmental State" will be established. Is it unlikely that a similar development may take place in the EU budget, and the classic redistributional tasks would be replaced by a future-oriented, development-centered community budget? No question that some basic structural changes, particularly the drastic reduction of the financial resources for the common agricultural policy (but also the much more transparent and stricter definition of the structural and cohesion fund) would provoke fierce resistance by several member countries. Moreover, the annual budget of a „developmental integration" would need much higher revenues than the current amount. It is fully understood that none of these preconditions is given today. Nevertheless, it cannot be ignored that the factors likely to force a change in favour of a „developmental budget" are already working and on different levels.

On the level of the member states, mainly the efforts of the net contribution countries have to be mentioned. They did not necessarily aim at freezing the budget but at fundamentally restructuring it. In accordance with the Lisbon goals, it is imperative to strengthen the innovative environment of the EU, to upgrade the quality of education and training, as well as to provide more community-level support to research and development. It has to be stressed that such goals should not only be supported by the current net contributors but by all member countries that are fundamentally interested in strengthening European competitiveness in the global scale. A further justified demand can be identified in supporting the dynamic catching-up process of the less developed member states, since it represents an equally vital factor of sustainable competitiveness and stability in Europe. However, in this context, structural and cohesion resources have to be much more oriented towards developmental and less towards (social) distributional objectives. In other words, these funds have to contribute to the accelerated catching up to the basic Lisbon goals. Therefore, the innovative potential available in the less developed member countries has to be mobilized not only in order to speed up the catching-up process but, and basically, in the interest of the all-European competitiveness as well. As a further, although still rather speculative element, the reforming of the national budget of selected member countries from the EU budget, with partial and evidently transitional character, can be mentioned. At first glance, such a requirement clearly contradicts the fundamental objective of a „developmental integration", because it would, apparently, channel money into redistribution processes. However, in some special cases, just such a support could bring the budget of some member countries out of the „trap situation of status-quo-oriented

redistribution" and give impetus to the transition towards a „developmental national budget". It is well known that large-scale reforms (pension funds, education, health care, public administration) generally do not produce extra income in the first stage of implementation. On the contrary, the initial costs of the reforms not only in social but also in economic and narrow budgetary terms may be higher than in the last period of the „status-quo-budget". Provisionally, some new expenditures are likely to appear in the budget, starting from the obligatory compensation payments to laid-off manpower (mainly in the public administration) up to some social compensation mechanism in order to break the resistance (or buy the tolerance?) of the „loosing" part of the population. Without the implementation of such transitional instruments all fundamental budgetary reforms would bear a very high risk to fail. There are not only new but also several old member countries whose national budget would require large-scale, quick and radical reforms. In case of delaying or half-heartedly implementing such reforms, the factors impeding the full-fledged implementation of a „developmental integration" could hardly be abolished (or minimized).

On the level of the European integration, we can identify a large number of future-oriented tasks that either require or recommend a more active participation of the community budget. In this context, two basic fields can be outlined.

One area includes the financing the further development of current community policies. Some of them are in the process of qualitative enrichment, while their successful development requires the increasing „communitization" of related policy fields. Community resources may be playing a determining role in this process, partly in solving (or mitigating) conflicts and contradictions, and partly in speeding up changes, even by overtaking eventual and transitional extra costs generated by the given „breakthrough" process. As a concrete example, the full-fledged liberalization of the internal market can be mentioned. Liberalization has to be extended to all areas that are still considered by some member countries as „sacred cows" (e.g. energy, transportation, selected financial services). Another example may be provided by the future development of the monetary union. The current duality that seems to characterize the European integration, can hardly be sustained for a longer period. Namely, on the one hand, we have a functioning monetary union with the participation of 13 countries, while, on the other hand, fiscal policies have definitely remained under national competence. The sustainability of the common currency increasingly needs an essential coordination of national fiscal policies as well as a level of economic policy convergence well beyond the nominal convergence criteria established in Maastricht. However, the biggest challenge the community budget may be facing in the future, can be produced by the critical mass of „competitiveness gap" among the EMU member countries, due to the long-run non-functioning of real convergence. In such a situation, some member countries (as well as the EU) would have to choose between two alternatives. Either some countries struggling with huge competitiveness problems leave the monetary union or the EU and, more importantly, the community budget would be forced to prevent the breaking down of one of the most important achievements of the European integration.[7] In this context,

[7] *In the last five years, the difference in unit production costs between Germany and Italy amounted to almost 20 per cent (in favour of Germany). Although the critical level of the „gap" can hardly be quantified, 20 per cent seems to be not very far from this limit.*

not only the future of the integration but also Europe's global interests and perspectives would be at stake. Since the European Monetary Union includes countries on different levels of development and, in consequence, with different degrees of (sustainable) competitiveness, market mechanism only is not necessarily convenient to manage such differences in every case. Thus, a compensation mechanism, similar to the national budget of each member country characterized by regional differences, may become desirable. This, however, would force the EU and its member countries to a complete rethinking of the amount and the internal structure of the community budget. Nobody should have the illusion that the costs of managing this potential „time bomb" could be covered within the limits of the current budget (not even with the major possible restructuring of the individual items). Experience of federal countries (characterized both by monetary and political union) indicate that such costs could be several times higher than the total expenditure directed to the big bang „Eastern" enlargement. Therefore, such a situation would definitely create a completely new environment for the future structuring of the community budget.

The other area, in which the demand for enhanced support from the community budget is expected, includes the strengthening of several community policy fields. Obviously, it has to cover the expected costs of further (potential) enlargements as well. However, due to the long-term horizon of the enlargement process, it is more timely and realistic to concentrate on such issues as environmental protection, the shaping of a common energy policy, the upgrading of justice and home affairs, common external border control, the reassessment of neighborhood policy, new challenges to the common foreign and security policy, or even the establishment of the first stage of a common defense policy. Let alone more resources to be channeled into research and development, education and training, as already partly reflected in the current budgetary structure. Moreover, the development of the transeuropean transportation network, a vital area for sustainable European development would also need large additional sums from the community budget.[8]

Finally, discussion about the future of the community budget cannot disregard the growing role of global challenges. European answers with budgetary implications can be identified in two levels. First, in the form of passive adjustment that would imply the (successful) management of some negative phenomena or crisis situations (e.g. critical economic situation, facing growing external competition or common actions against international migration). A concrete form of such a passive step can be seen in the „solidarity fund" included into the current budget.[9] Not less important are, however, active steps to be undertaken by the European integration, as one of or the most important player in the international economy (trade, capital flows, and international aid). If the EU wants to preserve its current global economic position, this effort has to find its clear expression in the community budget as well. As a result, the financial background of all areas has to be fundamentally reinforced

*[8] This is a particularly important issue for the new member countries, due to the underdevelopment of their physical infrastructure, both on the national and on the cross-regional levels. Unfortunately, these projects regularly used to be the loosers in the intra-EU budgetary compromises. The financial resources still available in the community budget are just a fraction of the originally projected amount.*

*[9] This Fund, provided with an annual amount of Euro 500 mn, is entitled to finance the rapid adjustment of companies that may have become the losers of globalization.*

that are expected to keep or further strengthen the global player status of the EU in the coming years. Among the concrete fields can be mentioned the „soft" security policy, as a special „European value", the reassessment of the EU's external aid policy, as well as the already indicated areas of environmental protection and neighborhood policy, with all of their extra-EU, i.e. international implications. Not less importantly, the financing of the basic objectives of spreading „European values" in other parts of the world and of creating a special „European image" attractive to third countries and in peaceful competition with other „images" have to be added to the agenda to be financed from a (to be) reformed EU budget.

In sum: several member-country-related, community-level and global factors can be found in order to promote the breakthrough of the common budget in the direction of representing and supporting a „developmental integration". However, considering the deeply-rooted structures of the old system as well as the narrow-minded („national") interests that seriously limit the revenue side of the budget, it is impossible to make any reliable forecast whether, and if yes, when, such a qualitative change is likely to happen. Still, it is a fundamental interest of Europe and it should be that of all member countries to speed up and successfully implement this process.

**Risk factors net beneficiaries may be facing**

Irrespective of the approach whether we insist on the more likely scenario of muddling through or try to outline the future of the community budget on the basis of „developmental integration" accompanied by several positive surprises, currently net beneficiary countries have to face a number of risk factors and will be forced to formulate and implement adequate answers in order to keep their actual position at least in the medium term. In this context, answers have to be found not only on selected real processes of the integration and their consequences but also on, conclusions drawn and recommendations proposed several member countries and experts, even if they seem to be erroneous and unjustified. Moreover, also expectations of large part of the societies in at least on the paper net beneficiary countries and partly deeply-rooted „automatism" of subsidy mentality in the public opinion have to be adequately addressed.

The first question that needs clarification is whether, and if yes, to what extent the community-level financial mechanism is efficient in the context of supporting the catching-up process of less developed members. Several experts, both coming from the EU and, even more, from international organizations (markedly from The World Bank) consider that the current redistribution of resources is characterized by low-level efficiency, and does not help the sustainable catching-up process. In turn, it generates large-scale subsidy mentality and behavioural patterns. This view seems to be supported by the fact that, despite massive financial transfers, the original differences in development (as measured in per capita GDP terms) between prosperous regions and those that became the main object of target-oriented community-level financing did not really change in the last decades. In some cases, previously registered and historically established „gaps" have been frozen and, consequently, reconsolidated (e.g. between Catalonia and Extremadura in Spain, Northern Italy and the

Mezzogiorno, let alone the really specific situation of the former East Germany). One should not wonder that the resulting suggestion is to abolish each kind of regional transfers and to bring back such programs into the national development plans (renationalization of regional support). In other words, radical representants of this view underline that each member state should assume responsibility to its own development policy and shape such a financial framework that takes note both of the possibilities of the national budget and the given level of economic development. Another, more balanced opinion suggests that regional resources (or a reduced amount of them) should be transferred to the target country without any conditionality and they should be used in the best and most efficient way according to the decision-makers of the beneficiary country. Obviously, the idea of renationalizing (part of) the community budget stems from the experience with the common agricultural policy. However, as of today, it has spread to other areas of the community budget linked to any kind of „redistribution". Furthermore, the extremely low level of efficient absorption capacity of the East German Laender provides an additional argument to those favouring dramatic cuts in the structural (and cohesion) funds.[10]

It is a fundamental common task of all net beneficiary countries, particularly of those that joined the EU in 2004 and 2007 to prove that regional and cohesion funds can be used efficiently. In this context, some points connected with the decade-long experience of the European integration have to be highlighted.

(a) It is evident that some countries and regions could highly benefit from community resources (Ireland, Catalonia, Lisbon and neighboring regions, Burgenland in Austria, etc.).

(b) It is true that in some cases the original development gap could not be reduced between different regions of the same member country. However, original development differences among member countries (at least measured in per capita GDP terms) have considerably decreased. In other words, the income-based and most probably also social cohesion of the Union has been increasing.

(c) The (efficient) absorption capacity of selected countries and regions needs careful analysis. On the one hand, there have been substantial differences in the absorption capacity across countries and, even more, across regions. On the other hand, differences in absorption capacity can be motivated by a large number of different reasons (part of them being time-dependent).

(d) Finally and most importantly: it has to be constantly proved by the new net beneficiary countries (and regions) that they do dispose of a larger and more effective absorption capacity than previous net beneficiary countries and regions. No opportunity should be lost to emphasize that any comparison with the East German Laender is fundamentally mistaken and misleading.

As a second approach, the new net beneficiary countries have to prove that they were able to absorb EU resources efficiently already in the last years. Special factors that enabled these countries to use EU funds (PHARE, pre-accession money) more efficiently have to be singled out. Particular

[10] *The new German Laender used to get in the last 16 years an annual amount of financial transfer from the German budget that is almost equivalent to the total annual budget of the EU. Despite this historically unprecedented financial injection, Eastern Germany is clearly lagging behind the Central European countries both in structural change and, even more, in international competitiveness.*

attention should be given to the character and speed of economic liberalization, the unprecedented pattern of transformation, the tolerance of the society and, last but not least, the extremely profitable activities of international capital in Central (and partly also in Southeastern) Europe.[11] It is the common responsibility of each new member country to create the most effective environment to the highest possible absorption capacity, starting from the functioning of the institutional system through the preparedness of the entrepreneurial sector to the quickest and broadest utilization of the spill-over (multiplier) effects of EU-financed projects. If any of the new members failed this exam, the negative consequences would immediately spread to the other members as well. We should not have any illusion. Both net contributing and previous large net beneficiaries that tend to be relative losers of the „Eastern" enlargement are keen to identify such failures in order to provide additional arguments in favour of reducing (or stopping to redistribute) regional and cohesion transfers from the community budget.

As a third requirement, the ongoing cross-country debate over distribution vs. efficiency, we should not stop underlining that these criteria are not necessarily contradicting each other. In contrast, in several cases they are mutually supposing and reconfirming themselves. In addition, efficiency is a relative category, since the results can always be measured as compared to different other objectives. In the simplest and most „radical" form, efficiency can be considered as a microeconomic category, as measured by the performance of a given company. This, however, cannot necessarily cover macroeconomic efficiency, let alone efficiency (partly) based on non-economic considerations. Another comparison is based on the direct economic benefits of the net contributing countries. If EU-financed developments in a net beneficiary country result in significant income growth and, consequently, in expanding consumption, additional export markets will be generated that, as overall experience in the EU indicates, will mostly be used by companies located in the more competitive and higher developed net beneficiary member states. As a result, not only the social cohesion will be fostered in the net beneficiary country but the overall welfare level of the European integration will be increased. Much more difficult is any attempt to quantify the impact of financial transfers on the political stability and security of the target-country (region). Evidently, there is also adverse experience in the EU based on resource transfers that have shaped subsidy mentality that can easily become serious political, economic and mental barriers to longer-term development. At the same time, member countries lacking the critical minimum of socio-political stability would need extremely high levels of crisis management transfers without any real alternative to sustainable growth.[12] Finally, EU transfers have to be interpreted in the framework of global challenges. All transfers that are able to filter out potential negative impacts but supports efficient preparation for global

[11] *It has to be stressed that the inflow of FDI into selected Central European countries (notably the Czech Republic, Hungary and also Slovakia) has reached in some years (much) higher levels than the officially fixed maximum of annual EU resource flow equal to 4 per cent of GDP as a maximum. This fact clearly refutes the argument that at least some of the new members were not be able to efficiently absorb annual amounts of transfers higher than 4 per cent of their GDP (a lot depends on the conditions of having access to the available funds).*

[12] *The current history of and experience gathered in the last years with the Western Balkans is illustrative.*

competition can be approved, irrespective of the fact that the resources are flowing to more or less developed member countries.

Fourth: adequate answer has to be found to the argument that the annual growth of the common budget, although indicating a rather modest increase, is still exceeding the annual growth of the national budgets of the member countries. Therefore, the growth of the EU budget should be reduced (or stopped), so that national contributions could start to decrease. In this context, the first remark is that community and national budgets cannot be compared, not only due to the highly different amounts but also because of their share in aggregate EU and individual national GDP terms as well. Despite higher growth rate of the EU budget, in absolute terms the national budgets are growing stronger. In addition, the already mentioned new community-level objectives can be referred on. Moreover, the importance of the internal cohesion of the European integration in global competition should not be forgotten.

The fifth task consists in using each occasion in order to make all involved interest groups aware of the fact that it is absolutely mistaken to start from the narrow interpretation of net contributing and net beneficiary positions. On the one hand, the European integration is characterized by multi-channel income redistribution processes. Among them the different primary budgetary positions represent one channel only, even if this is the most visible one that can be communicated easily, and linked to messages containing different interests.[13] On the other hand, resource redistribution on the community level shall not miss the inclusion of a number of other elements with fundamental impact on the macroeconomic redistribution of benefits. Trade, international investments as well as rapidly growing private remittances (in new member countries with high level of emigration) belong to this package.[14] Just to mention a concrete example. EU financial transfers to Hungary amount to Euro 22.6 bn in the current seven year financial framework. This is about one-third of Hungary's annual total import and half of its import from EU countries. In consequence, any balanced analysis of the transfer flows has to include all basic channels of economic interaction. Simultaneously, we have to keep stressing that the European integration is a „win-win-game", which benefits every participant. It is very likely that any country that, for whatever reason, would have liked to abandon the integration framework would be facing serious macro-economic (and other) losses.

Sixth: in the last years, the revenue side of the EU budget and, consequently, the financial maneuvering room of the integration have become substantially limited by making reference to the Maastricht criteria. Interestingly, the six net contributing countries that formulated their famous-infamous letter in December 2003, where highly differently affected by this factor. Thus, the common legal basis of this reference can be seriously questioned. In fact, France and Germany were struggling with the budgetary criterion of Maastricht (better to say, with the non-fulfillment of this condition). In turn, Austria and the Netherlands were far from having such a problem. Moreover, the United Kingdom and Sweden were not part of the monetary

[13] *No doubt that this possibility is widely used not only by politicians of the net contributing but also by those of the net beneficiary countries alike.*

[14] *Moreover, also EU resources not distributed into "national envelopes" have to be considered. Generally, they used to benefit larger and net contributing countries more than net beneficiary ones.*

union (while both have been continuously complying with the Maastricht conditions). Therefore, we have to be aware of the concrete situation and prevent each country from „mixing together" facts or trends that do not have any correlations or if such a situation is principally the consequence of mistaken community-level policies.

Seventh: with the highest level of probability, it has to be avoided that net beneficiary countries make use EU resources to finance explicitly social redistribution instead of channeling such funds into development. On every instance, we have to stress that EU resources do not only help narrow existing development gaps,[15] but they initiate modernization processes. On the one hand, they are expected to create a sustainable environment for longer-term development. On the other, and not independently of the first process, they are able to contribute to the strengthening of global competitiveness of the European integration. In consequence, it could be recommended to link, directly or indirectly, most financial transfers to the achievements of the Lisbon goals. Moreover, this linkage should be communicated towards politicians of the net contributing countries, as well as to the business community interested in the strengthening of the international competitiveness of the EU.

Eighth: we definitely need documents and proposals with a long-term and clear concept (certainly not excluding different, but always transparent scenarios) that could bloc any discussion about the next budget starting in 2014 that, almost from the very beginning, could become the hostage of the „horse-trading practice" of the two previous financial periods. Already now, it should be made clear to each of the member countries that inglorious short-sighted political games experienced around the budget in the last decade do not improve the bargaining position of any of the member countries,[16] while they definitely worsen the international reliability of the integration. Furthermore, in the longer run, such a practice may easily undermine the still strong or even strengthening international confidence in the EU.

Ninth: one of the most complicated tasks of the new member countries consists in not becoming the hostage of the traditional beneficiary structure of the EU's budget. Such a situation has to be avoided even if, for several years, the given country tends to profit a lot from the given rules of the (redistribution) game. This statement particularly holds for the common agricultural policy in general, and for the direct payments to farmers, in particular. Namely, these payments will be approaching (and reaching) the level of the EU-15 countries by the end of the current financial framework, just in the period when serious negotiations on the post-2013 budget will be launched. Based on our current projection, one of the most uncertain and hottest discussed elements of the budget starting in 2014 will be the future of the direct payment system. Even if a radical restructuring of the future budget will fail, the current system is unlikely to be maintained. Thus, it would be fundamentally mistaken if the new member countries, most of them with economically important (and politically sensible) agrarian sectors were insisting on this item of the budget instead of focusing on several other more important and prospective areas, without giving up or endangering their

*[15] According to official statistics, this can be reached by simple redistribution, as the not-to-be-followed example of Eastern Germany obviously (and, unfortunately) proves.*

*[16] This statement holds even if politicians tend to return from budgetary, and other EU-related negotiations with "victory reports".*

relevant net beneficiary status (but not as a result of agricultural payments).

**Realistic scenarios concerning the maneuvering room and the structure of the post-2013 budget**

Within the period of the current financial framework, a budgetary revision will take place in 2008 and 2009. However, based on our current level of information, it will hardly introduce essential changes into the structure and annual amounts fixed until the end of 2013. However, the results of the revision period are likely to have relevant impacts on the next financial period starting in 2014. Therefore, it is convenient to start discussion already now on concepts, objectives and potential instruments beyond the year 2013. In other words, national preparation for the new financial period has to be started immediately.

In this context, the following framework conditions, hypotheses and recommendations may be helpful.

(a) The first hypothesis is that the current EU budget will not be seriously challenged by the accession of one or more new members. Based on the current state of negotiations and pre-negotiation talks, Croatia only has the realistic hope for joining before 2013. However, the financial coverage of Croatia's entry is included into the current financial structure, similar to the financing of Bulgaria and Romania after 2009.[17]

(b) In spite of increasingly „vociferous" critics, we do not believe that any fundamental change could be started in the current structure of the common agricultural policy, as negotiated between France and Germany until the end of 2013. This is an unwelcome development to the new members as far as the quick and (almost) full-fledged „renationalization" of the agricultural policy would be the more advantageous to the new members the earlier it would occur. Namely, the old member countries would be deprived of the massive direct payments when the new members would not yet reach the EU-conform upper limit of such contributions (70 per cent at least coming from the common budget, with maximum 30 per cent national co-financing). Most probably, the relative, and certainly shrinking but still existing competitive advantages of the agricultural sector of most new members could be best exploited (even if, without further investments, in the short run only). This, however, cannot be considered a real perspective. Thus, we have to accept that the full-fledged or partial renationalization of the agricultural sector can only take place after 2013. However, the agricultural strategy of the new members has to start preparing for the likely new situation already now.

(c) According to our current view, the new EU budget starting in 2014 requires clarification in two key questions linked to the shaping of the longer-term strategy of the integration:

- What should determine the future system of national contribution to the common budget: the redistribution of the available (and nationally restricted) resources or the financial requirement of the new objectives of the integration?
- What should be financed from the community budget and what should remain (or return) to the national budgetary framework?

(d) In which time period should the next

[17] *It is known that Bulgaria and Romania dispose of an annual budget until the end of 2009, while for the second part of the current budgetary period, the national envelopes have not yet been „filled", in contrast to the new members that joined in 2004. However, the money is available within the current financial framework.*

budget be placed? Should we insist on prolonging the current pattern of the seven-year financial framework or should be opt for a shorter (e.g. five-year) period?

(e) How should be define the conditions of „automatic access" to EU funds? Should and could the presently valid entitlement levels of 75 and 90 per cent, respectively, be kept (for regional and cohesion funds)? Or, taking into account the income constraints of the budget and the financing needs of new community policy areas, should the above criteria be modified? Obviously, the answer partly depends on the future structure and size of the revenue size of the common budget that could guarantee adequate and stable (sustainable) conditions for longer-term financial planning. Despite all justified critics (and not less important and justified resistance) it cannot be ruled out that, in certain situations, the EU budget would be financed by external credits, provided that the loans would be offered by the European Investment Bank, the „domestic bank" of the integration.

(f) Net beneficiary countries are advised to develop a double strategy. On the one hand, and evidently, they cannot give up their demand for negotiating on and keeping the highest possible level of EU resources in the future. On the other hand, and based on the experience to be gathered after 2007, they have to analyze the „efficiency function" between the theoretically available amount of EU resources and the conditions (rules of the game) of having access to such funds. It can absolutely not be ruled out that in some cases the improvement of the access conditions offers larger benefits than the bargaining on higher amounts of money but with very difficult terms of accession to it.

(g) One issue, that, unfortunately, could not be accepted during the negotiations on the 2007-2013 financial framework,[18] has, imperatively, become a vital point during the budgetary negotiations from the very earliest stage of bargaining over the new financial package after 2014. The main point is that the new member countries of 2004 and 2007 (and, similarly, those expected to join later) are not only less developed than the EU-15 but, in contrast to Ireland, Greece, or the Iberian peninsula, they do not form the geographic periphery of Europe. On the contrary, they represent a geographically compact region with several common continental borders. Therefore, their catching-up process must not be constrained to financial transfers put into „national envelopes". All of them need a cross-border, regional development fund in the coming EU budget that is devoted to finance large-scale infrastructure and environmental projects in Central, Eastern and Southeastern Europe. As long as the development of transeuropean corridors remains at (or is pushed to) the periphery of the EU budget, there is a real danger that any cut in the financial resources, whatever its motive, would first of all negatively affect this region (and these countries) of the enlarged integration. In consequence, the establishment of a new trans-border regional fund should become a vital element of the new EU budget. As a result, the amount available in the national envelopes may be somewhat reduced, but the new approach could generate substantial additional and favourable conditions. First, it could certainly improve the efficiency of infrastructural developments in the entire region, of which intra-European trade and financial (investments) flows could substantially benefit. Second, it could strengthen the cohesion among the new

[18] *In fact, despite the definitely common (but not recognized) interest, it has not even been tried to be brought on the negotiation table by the new member countries.*

member countries with favourable impacts on the European economy, starting from positive multiplier impacts to higher level of socio-political stability. Third, such a budgetary item could hardly be questioned by any member country, since the region is an unprecedented geographic-historical-economic unity within the enlarged EU. Fourth and finally, both for geographic and strategic considerations, the regional approach to the development of infrastructure would incorporate countries of the Western Balkans, with membership promise by Brussels but with high uncertainty of the timing of accession. Just this new network could contribute to keeping membership expectations alive and, at the same time, improve the concrete conditions of adjustment (e.g. enhanced trade and investment flows). Beyond the direct participants in the project, in fact, the whole continent could enjoy the positive impacts of such a development, since all Central, Eastern and Southeastern European new (and prospective) members have a relevant transit role in trade and capital flows not only within the (enlarged) EU but also towards neighbouring countries of Eastern Europe and the Middle East.

(h) During the preparatory period for the next budget, relevant analysis is needed concerning the benefits and costs of eventual transition to a system of direct transfers. Today, it is not yet possible to take a clear position on the proposal of replacing the current regional-support-based financing of the budget by a direct support system. In addition, it is fully unknown what would be the position (support or rejection) of the individual member states. Still, it would be appropriate and timely to deal with this issue by trying to set up a first cost-benefit-balance.

(i) Finally, all new member countries have to elaborate their own plan and recommendations with respect to the future revenue side of the common budget. Special attention has to be devoted to the already known ideas and new suggestions addressing the increasing independence of the common budget from budgetary considerations of the respective member states, namely the two most important current sources (VAT-based and GNI-based contributions).

**Short remarks on potential interest alliances**

It is obvious that none of the 27 member countries has a bargaining power that would be sufficient to let its special interests and priorities accepted by or, even more, imposed on all the other members. In turn, as long as the acceptance of the budget requires unanimity, each country is able to bloc any budgetary proposal by making use of its veto right. However, based on previous experience, this is usually not the way of implementing national interests.[19] Most conflicts of interest have been regularly settled in the EU on the basis of a long-established „compromise culture”. This is particularly characteristic of the different stages of discussing the financial frameworks covering several years and is represented by different „interest alliances”. Concerning the new budget starting in 2014 the following scenarios can be anticipated.

(a) As a constant element, interest groups will be organized along „developed” and „less developed” countries, as well as according to the net budgetary position („contributors” and „beneficiaries”) of the individual member countries. However, it is by far not sure, that such groups will be or

[19] *Making use of or, more frequently, threatening with the use of the veto right was much more the instrument of large net contributors (Germany, United Kingdom) or large net beneficiaries (Spain, later Poland) than that used by smaller and „more flexible” countries.*

remain homogeneous. First, there are substantial differences among countries classified according to the above features, since some members are major contributors than others as well as some members are larger beneficiaries than others. Let alone the fact that the budgetary position of any country is carved in stone and, in the post-2013 period the previous position of some countries may be changed.[20] Second, any structural change in the composition of the budget is likely to modify interest-based relations among the net contributing countries.

(b) In the enlarged EU, larger role is expected from interest communities based on a given geographic region. Regional features first appeared on the level of community policies following the Mediterranean enlargement.[21] A second regional circle was formed after the accession of Finland and Sweden (Northern dimension of the EU). The „Eastern" enlargement of 2004 and 2007 resulted in further regional cooperation forms (Visegrad Group, but also the much loser „cooperation propensity" of the countries located in the Danube region or the even broader „Central European Initiative"). Based on partly global, partly European developments, in the next years new lasting or tactical interest alliances are expected to emerge that will be organized according to regional considerations (e.g. the strengthening of the Atlanticist, pro-USA line or more transparent interests concerning the Western Balkans).

(c) Further alliances may be generated by member country interests in line with special community objectives. In this context, one major alliance-building factor is the future of the common agricultural policy (between supporters of and opponents to the current system and central place of the agricultural policy in the EU budget). Another alliance can be outlined with respect to the Lisbon objectives, with particular emphasis on key factors belonging to the „competitiveness package". In conformity with the development of community policies and the enrichment of the acquis communautaire, several new interest groups and alliances are likely to appear. Among others, they may be organized in the following fields:

- Common energy policy,
- Management of the massive migration waves (mainly from the South),
- Cooperation among countries sharing Schengen borders,
- Environmental protection,
- Finally, all priorities that can be linked to the Lisbon strategy (research and development, education social issues and labour market reforms).

Looking at the different policy areas indicated above it is rather difficult to identify any interest alliance with the same member country composition. Different areas of the European integration are expected to produce alliances consisting of different countries. This, however, could make the crystallization of transparent alliances more difficult, particularly in the first stage of debating on the future of the budget. At the same time, just this „colourful" picture enables or even forces member countries to look for reasonable compromises. Evidently, such a position can only be expected from the individual countries if they can clearly define their short and longer-term interests and are

[20] *Particularly some currently net beneficiaries (mainly regions) may stop getting EU funds.*
[21] *The EU's Mediterranean policy or the Barcelona process can be mentioned as telling examples.*

aware of the similar or diverging interests of their partners.

When discussing and forecasting tactical and strategic alliances, one should not ignore the role of the Commission deeply interested in the comprehensive reform of the budget, including the stabilization of the budgetary incomes (i.e. its separation from the national budgets as much as possible) as well as in the twin priority of solidarity (cohesion) and competitiveness-related objectives. All new member countries have to be fundamentally interested in involving the Commission and secure its support in protecting and implementing well-defined and shared interests.

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