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OLD AND NEW EU POLICIES IN THE BUDGET OF THE EU27 AND BEYOND. A SUMMARY OF SURVEY RESULTS FROM 2008²

The enlargement of the EU in 2004 and 2007 has led to a significant increase in population and territory, but also a huge increase in differences regarding economic structure and development levels. Despite the traditions of the EU in dealing with such differences, the scope of the latest enlargements is a challenge for existing EU policies. In addition, potential additional tensions stemming from further enlargements would be added to the present unsolved debates on the EU budget.

After presenting the current situation and the main challenges regarding the expenditure side of the EU budget, it summarises the results of a recent survey on the perception of experts and decision-makers from different member states regarding EU budget expenditure. This is followed by a summary of the main findings of the same survey regarding preferences for the future; the paper is completed by the conclusions.

JEL: F36, H87

Introduction

With its enlargements in 2004 and 2007, the number of the member states of the European Union (EU) increased from 15 to 27. The consequences of this change are manifold, and very different: they include a significant increase in population and territory, but also a huge increase in differences regarding economic structure and development levels.

The EU has a long tradition of dealing with such differences; still, the scope of the latest enlargements is a challenge for existing EU policies. Moreover, taking into account that enlargement is not considered to be finished, this challenge is expected to be even more urging in the next few years. Last, but not least, potential additional

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² This paper summarises the EU expenditure related results of the following research report: The EU Budget Review: Mapping the Positions of Member States, SIEPS Research Report 2008:2, edited by Tamás Szemlér and Jonas Eriksson.

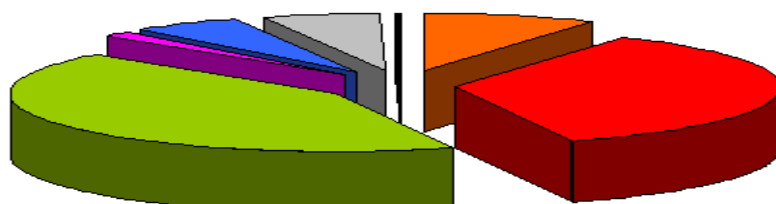
tensions stemming from further enlargements would be added to the present debates on the EU budget, that are far from being satisfactorily solved.

In section 1 of this paper, we present the main features of the expenditure side of the EU budget in the period 2007-2013, with particular weight on the issues that were key topics during the last accession talks and are also expected to be the most sensitive ones in the case of further enlargements. In section 2, we proceed with a short summary of the results of a recent survey on the perception of experts and decision-makers from different member states regarding EU budget expenditure; section 3 presents the main findings of the same survey regarding preferences for the future. Conclusions presented in section 4 complete the paper.

1. EU budget expenditure today: the cake at stake

The period 2007–2013 brought some new elements into the distribution of EU budget expenditure. The main expenditure headings have been changed: the changes meant not only new names for most headings (with the exception of administrative expenditure), but also a partial restructuring of a part of the expenditure items. The structure of EU budget expenditure for 2007–2013 is presented by Figure 1.

Figure 1
The cake at stake - the distribution of EU budget expenditure, 2007-2013



■ 1A Competitiveness for growth and employment	: 8,8 %
■ 1B Cohesion for growth and employment	: 35,6%
■ 2 Preservation and management of natural resources	: 42,7 %
■ 3 A. Freedom, security and justice	: 0,8 %
■ B. Citizenship	: 0,5%
■ 4 The EU as a global partner (excl. EDF)	: 5,7%
■ 5 Total administrative expenditure	: 5,8%
■ 6 Compensations BG/RO	: 0,1%

Source: http://ec.europa.eu/budget/prior_future/fin_framework_en.htm

The most important changes relate to headings 1A, 1B and 2. Altogether, these headings represent more than 87% of total expenditure in the period. Within this, the explicit appearance of competitiveness is a new phenomenon demonstrating the EU's intention to devote more attention to this issue. Cohesion expenditure

remained important; in fact, with the enlargement of the EU, it is more important than ever (even if it is not fully reflected in its share).

Headings 1A and 1B together represent a higher amount (and thus a higher share) than heading 2 – this can be seen as a turning point in the history of the EU budget: this is the first time when agriculture is not the biggest item of the expenditure side. It can also be symbolic that agriculture is no more the first one of the expenditure headings in the numbering; in addition to it, the fact that the name of heading 2 is not agriculture (although its content is overwhelmingly the Common Agricultural Policy) strengthens even more this symbolic change.

As for expenditure headings 3 and 4, they represent partially new priorities, but they also include many of the traditional expenditure (under the former “Internal policies” and External actions” headings). Their share is quite low, therefore they do not belong to the really debated hot issues. The latter statement is true for headings 5 and 6, as well.

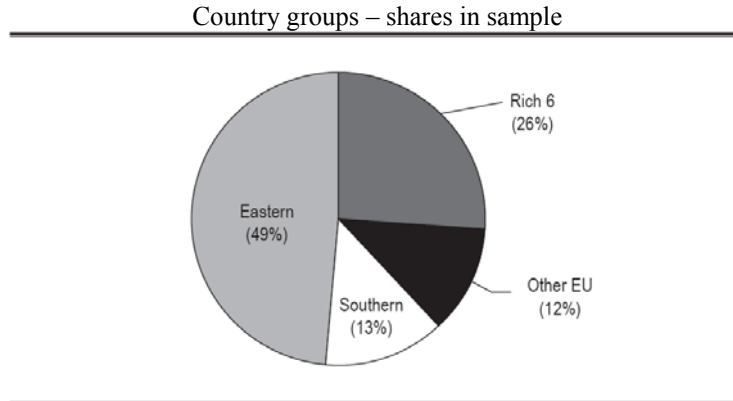
As it can be seen, expenditure and, as a result surprisingly, the most intensive debates are concentrated to the issues of competitiveness, cohesion and agricultural policy. In the debates and perceptions integration traditions, country interests and the changing situation play an important role. The expenditure structure for 2007–2013 is the result of a compromise, but it cannot be regarded as an eternal result: discussions about changing the EU budget are running continuously. In 2008–2009, these debates are channelled into the EU budget review, a process aiming at arriving to proposals for a more up-to-date and more efficient EU budget.

In December 2006, the Institute for World Economics of the Hungarian Academy of Sciences (IWE) was commissioned by the Swedish Institute for European Policy Studies (SIEPS) to map the positions of the EU member states with regard to the EU budget review 2008/2009. The research report employed a twin-track approach: First, a questionnaire survey was carried out (questionnaires were sent to policy-makers and researchers throughout the EU); second, a number of budget researchers were asked to analyse the likely positions of eight member states. The following sections present the main results of the survey and summarise the main findings of the report³ regarding the expenditure side of the EU budget.

The result of the above mentioned survey is a sample that consists of 167 questionnaires, received from 23 member states. These member states have been divided into four categories, according to their „EU budget history”. The composition and the share of each category is presented by Figure 2. As for the country papers, they were prepared for the following eight member states: Germany, France, Sweden, the UK, Spain, Poland, Hungary and Bulgaria.

³ The EU Budget Review: Mapping the Positions of Member States, SIEPS Research Report 2008:2, edited by Tamás Szemplér and Jonas Eriksson.

Figure 2



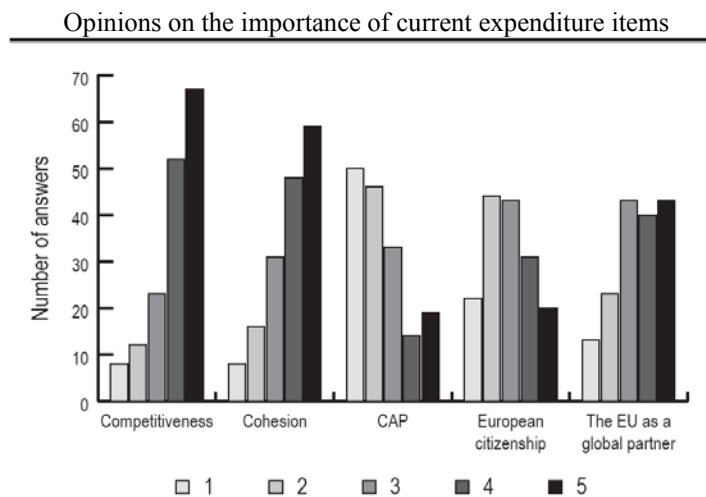
* *Eastern:* Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia; *Other EU:* Belgium, Cyprus, Finland, Ireland and Italy; *Rich 6:* Austria, France, Germany, the Netherlands, Sweden and the UK; *Southern:* Greece, Portugal and Spain.

Source: The EU Budget Review: Mapping the Positions of Member States, SIEPS Research Report 2008:2, edited by Tamás Szemplér and Jonas Eriksson, p. 45.

2. Survey results: perceptions about current EU budget expenditure

Regarding the current (2007-2013) expenditure structure, we asked the respondents' opinion from two angles: the importance and the actual share of the main expenditure headings, in order to get – indirectly - information on opinions on the possible restructuring needs of the current expenditure structure.

Figure 3



Source: The EU Budget Review: Mapping the Positions of Member States, SIEPS Research Report 2008:2, edited by Tamás Szemplér and Jonas Eriksson, p. 36.

Table 1
Evaluation of the importance of the expenditure items of the EU budget (%)*

Competitiveness	1	2	3	4	5
Eastern	3.85	7.69	10.26	30.77	47.44
Other EU	5.26	10.53	10.53	26.32	47.37
Rich 6	7.14	4.76	14.29	35.71	38.10
Southern	-	9.09	31.82	36.36	22.73
Cohesion					
Eastern	5.13	3.85	11.54	30.77	48.72
Other EU	5.26	5.26	21.05	42.11	26.32
Rich 6	7.14	16.67	30.95	26.19	19.05
Southern	-	18.18	22.73	22.73	36.36
CAP					
Eastern	24.36	28.21	20.51	11.54	15.38
Other EU	15.79	26.32	26.32	15.79	15.79
Rich 6	47.62	26.19	14.29	2.38	9.52
Southern	36.36	36.36	22.73	4.55	-
European citizenship					
Eastern	9.09	19.48	33.77	27.27	10.39
Other EU	26.32	42.11	26.32	5.26	-
Rich 6	9.76	26.83	24.39	17.07	21.95
Southern	22.73	45.45	9.09	9.09	13.64
EU as a global partner					
Eastern	7.69	11.54	30.77	28.21	21.79
Other EU	-	42.11	21.05	15.79	21.05
Rich 6	7.14	4.76	28.57	26.19	33.33
Southern	18.18	18.18	13.64	18.18	31.82

* *Eastern*: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia; *Other EU*: Belgium, Cyprus, Finland, Ireland and Italy; *Rich 6*: Austria, France, Germany, the Netherlands, Sweden and the UK; *Southern*: Greece, Portugal and Spain.

Source: The EU Budget Review: Mapping the Positions of Member States, SIEPS Research Report 2008:2, edited by Tamás Szemplér and Jonas Eriksson, p. 51.

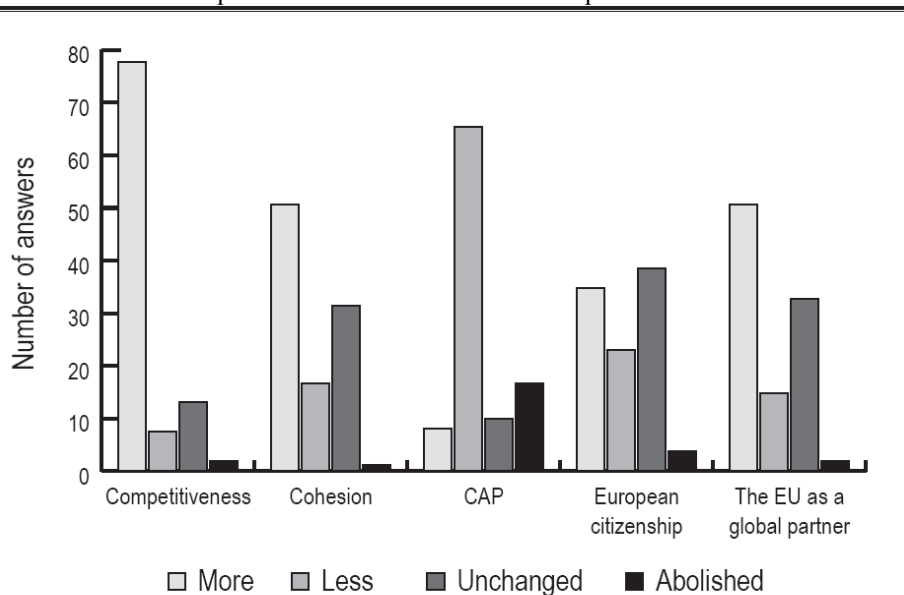
Figure 3 presents the survey results regarding the importance of the present expenditure headings in the EU budget. Respondents were asked to evaluate the importance of each heading on a scale from one to five, five being the best mark. As the results show, competitiveness and cohesion were ranked as being very important by the vast majority of the respondents. On the other hand, the Common Agricultural Policy (CAP) was regarded as unimportant or not very important by a clear majority of the respondents – many of them from countries which benefit considerably from the CAP (see Table 1 for details on answers according to country groups). This may be perceived as a “wind of change” (this „wind of change” seems to be confirmed by the results of the country papers – see later). The other two –

much smaller, and thus much less interesting from the point of view of the traditional EU budget bargaining – items were judged to be of medium importance.

On the basis of the above results, there is no surprise in the answers to our next question, where we asked respondents to evaluate the actual share of the expenditure items in the EU budget, to judge whether resources were sufficient or whether there were areas where they should be increased or decreased. The results are presented by Figure 4, and are very much in line with our previous findings.

Figure 4

Opinions on the shares of current expenditures



Source: The EU Budget Review: Mapping the Positions of Member States, SIEPS Research Report 2008:2, edited by Tamás Szemplér and Jonas Eriksson, p. 37.

More than 3/4 of the respondents considered that the share of the item “Competitiveness for growth and employment” should be increased; half of them thought that the share of “Cohesion for growth and employment” and “The EU as a global partner” should be greater, too. At the same time, almost 2/3 of the respondents a preference for decreasing CAP expenditure; according to 17% of all respondents, the CAP should be abolished altogether.

3. Survey results: preferences and prospects for a future budget

Regarding the future shape of EU budget expenditure, we asked them to specify any new expenditure items they wished to see in the EU budget (if any). Table 2 presents the results of this question.

Almost 40% of all respondents considered that new expenditure items would be necessary in the EU budget. Table 2 presents the ideas of these respondents, together with the number of cases of mentioning for each idea. Quite much in line with present Europe-wide mainstream thinking, a common energy policy, climate change and environmental protection, R&D, development, education were among the issues on the top of the list; meanwhile. While it is not surprising at all, the presence of European defence among the most mentioned proposals is more interesting.

Table 2

New expenditure items suggested by respondents	
New items suggested	Number of answers
Common energy policy	13
Defence	12
Climate change/environmental protection	10
Research & development/education	10
Immigration/social group integration/social policy	5
Labour market development/net job creation	3
More funds to solidarity, equality and gender issues	3
Foreign aid (make EDF part of the EU budget)	2
Culture	2
Infrastructure	1
Baltic Sea Strategy	1
Union integration projects	1
Common EU embassies	1
Conditional financial aid to North African countries*	1
The EU faces new challenges**	1

* Condition: low level of illegal immigration to EU; aim: to motivate North African governments to better patrol their external borders, so as to alleviate pressures on EU social security systems and to make workers remain in their home countries.

** Rising energy prices; demographic change; sustainable development; alleviating globalisation effects; and development of knowledge-based economy. The EU needs to reflect, first, on what the EU's political priorities are – i.e. which challenges the EU should try to find answers to – and, second, on how current EU policies could be adjusted to comply with these political priorities.

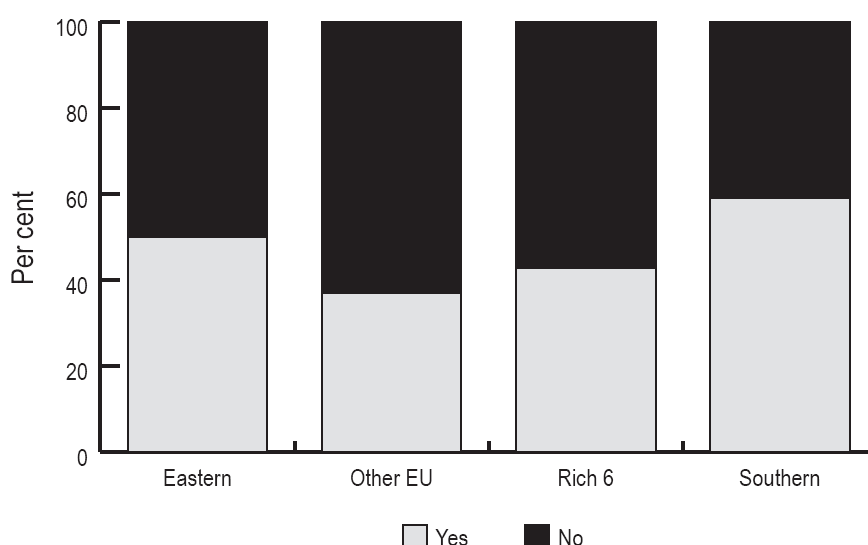
Source: The EU Budget Review: Mapping the Positions of Member States, SIEPS Research Report 2008:2, edited by Tamás Szemplér and Jonas Eriksson, p. 38.

In the survey, a specific question was devoted to the issue of enlargement and the (supposed) additional budgetary burden related to it.. The reason for it was that previous enlargements have always caused additional tensions around the EU budget negotiations, and it can be expected to remain so. The objective of the question was also to specify fears and expectations in this respect – we asked the respondents to describe the most important factors (if any) that would endanger the proper and efficient functioning of the EU budget in the case of further enlargements.

The answers to this question show (see Figure 5) that opinions are very much divided. There is some difference between the country groups, but altogether more than half of the respondents think that the present EU budget will not be able to deal with tensions stemming from further enlargements. They provided various reasons (see Table 3); most of them emphasised the problem of Turkey’s accession, while several respondents considered the present structure of the CAP as a hindering factor.

Figure 5

“Do you think the present structure of the EU budget will be able to deal with the needs of further enlargements?”*



* *Eastern*: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia; *Other EU*: Belgium, Cyprus, Finland, Ireland and Italy; *Rich 6*: Austria, France, Germany, the Netherlands, Sweden and the UK; *Southern*: Greece, Portugal and Spain.

Source: The EU Budget Review: Mapping the Positions of Member States, SIEPS Research Report 2008:2, edited by Tamás Szemplér and Jonas Eriksson, p. 54.

The results of the country papers (included in the report) reinforced the impression got from the questionnaire survey. Country positions mapped by the country papers regarding the expenditure side of the EU budget are presented in Table 4.

Although Table 4 shows that there is an increasing understanding of the necessity to reform major EU policies – including the CAP and the Cohesion Policy – as well as a principal agreement on the importance a number of new items. However, the last line of Table 4 reminds us that budget size is probable to remain a key issue, and that net position considerations will also continue to be important.

Table 3
Potential problems stemming from further enlargement – main issues raised by the respondents

Remarks related to Turkey

- Too large a share to ineffectively centralized CAP. In case Turkey becomes a member the agricultural policy will not be sustainable
- Accession of Turkey is the biggest problem, may become an incalculable risk. Probably impossible to accommodate Turkey within the present structure. The EU budget could in no way accommodate the accession of Turkey in 10-15 years. It will need to be thoroughly overhauled for this purpose - especially the CAP which should be abolished by the time Turkey joins the EU. CAP and Cohesion expenditure would under current conditions go largely to Turkey and the Balkans; therefore current Member States would see dramatic reductions in these receipts. Turkey would not fit in under the current structure, the Western Balkan states maybe;
- Possible accession of Turkey to the EU would cause substantial burden for the EU budget (especially in the area of Cohesion policy and Common Agriculture Policy of the EU). In that case EU should restrict the share of EU budgetary expenditures spent on Common Agriculture Policy and Cohesion Policy should be concentrated on the development of the regions lagging behind in the poorer Member States with GDP per capita below the EU average. In the case of future EU enlargements without Turkey the present structure of the EU budget would be considered sufficient.

Remarks related to the financial burden of enlargement

- Further enlargements (mainly involving much less developed countries) will mean new types of challenges;
- Current and potential candidate countries need higher financial support because they have much more complicated problems as compared to the previous enlargements;
- New Member States are even more underdeveloped and will thus require high levels of financial assistance. There is not enough money for enlargement;
- The EU budget at its present structure is not able to deal with the needs of further enlargements of the EU, especially in cases where enlargement refers to countries with huge populations and low standards of living;
- More funds are needed in order to better integrate Balkan states.

Remarks related to increasing differences

- Inequality in the EU is too big;
- More expenditures for cohesion is required;
- The current system does not adequately deal with regional differences in the Union, such as the greater importance of a particular policy for an individual region.

Other remarks

- Excessive bargaining power of core countries;
- Less attention should be given to *juste retour*;
- Too much money for agriculture and the Structural Funds. Too little money for research, education and innovation;
- A general correction mechanism should be introduced. Also greatest increases in the Budget 2008 are related to internal policies for the Member States;
- No more enlargement, at least in ten years;
- May need to move to EU tax but not on business and only if corresponding reduction in other taxes.

Source: The EU Budget Review: Mapping the Positions of Member States, SIEPS Research Report 2008:2, edited by Tamás Szemlér and Jonas Eriksson, p. 130–131.

Table 4

Summary of country positions on top issues related to EU budget expenditure

Issues	Germany	France	UK	Sweden	Spain	Poland	Hungary	Bulgaria
CAP	Reform; national co-financing of direct payments	Maintain; increasing openness for reform	Abolish/ reform	Abolish/ reform	Reform/ abolish	Maintain; increasing openness for reform if equal competition conditions for all EU producers ensured; no re-nationalisation	Increasing openness for reform	Openness for reform
Cohesion Policy	Concentrate on the neediest regions; more emphasis on Lisbon targets	Concentrate on Objective 1 regions in the EU-27; bring objectives into balance; broaden funds' competence	Significant reduction of current EU funding	Concentrate on neediest Member States; coherence ensured to avoid counteraction between policy areas	Increased concentration necessary for higher efficiency	Maintain; no renationalisation; concentrate on Objective 1 areas	The country's share to be kept high – at least for the next Financial Framework	Important: to be kept at present level and to be made more efficient
New or increasing expenditure items proposed	Lisbon objectives	Lisbon objectives; Education and youth; Security and justice	R&D, CFSP	Lisbon objectives; Justice and Home Affairs; safeguarding peace, democracy and human rights. However, any new expenditure item only as a result of CAP and Cohesion Policy reform (reduction)	Industrial policy; social and employment policy; defence, EU diplomatic corps	European Neighbourhood Policy; Globalisation, energy, sustainable development	A defensive position: preserve existing policies, but openness to many ideas, e.g. energy policy; R&D policy; innovation; education; social policy; employment policy; health policy; and migration policy	International cross-border projects in physical infrastructure
Budget size	Max 1% of EU GNI	Max 1% of EU GNI	Max 1% of EU GNI	Max 1% of EU GNI	Around 1% of EU GNI	At least 1% of EU GNI	At least 1% of EU GNI	At least 1% of EU GNI

Source: The EU Budget Review: Mapping the Positions of Member States, SIEPS Research Report 2008:2, edited by Tamás Szemlér and Jonas Eriksson, pp. 130–131.

4. Conclusions

The most important conclusions of the report regarding EU budget expenditure – on the basis of the questionnaire survey and the country papers – can be summarised in the following:

- While the need for fundamental change is clear, old sources of budgetary conflicts remain important. Therefore, old debates will probably continue, at the latest during the discussions on the Financial Framework beginning in 2014.
- The budgetary net position is still central in the line of thought of most member states. A change in the long run is not inconceivable but a major deviation from the present course seems unlikely in the near future. Of course, the ongoing budget review is an eminent occasion for change in spirit, but its results will not be binding in any sense for the Agenda 2014.
- Considerable shifts on the expenditure side have quite good chances now. The main issues in this respect are the future reform of the CAP, and of the Cohesion Policy and the reinforcement of the competitiveness objective. There are a number of converging ideas regarding new expenditure items but a closer look reveals that most actors probably base their thoughts on the status quo.
- It is important to note that there is no general division line between old and new member states. Beyond their specific short or mid-term interests in their economic catching-up process, new member states seem to understand the importance of being part of a strong EU. They are also well aware of the fact that in the case of further enlargements, the CAP and the Cohesion Policy in their present forms would mean a greater financial burden for them, and would first of all benefit the future new members. Therefore (the actual) new member states seem to be open for reforms in the long run.
- More generally, most groups of member states are not homogeneous and thus no general coalitions may be expected. This was already a well-known fact among the old EU15 and this applies to the new EU12, as well. One exception might be the group of net contributor countries (the group of the “Rich 6”), although France and the UK may have special interests potentially dividing this group as well.