CHALLENGES OF THE EUROPEAN UNION BUDGET REFORM

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Abstract
At the European Union are presented some concerns regarding the need to review its policies starting with the recommendations for the budget reform and the change of the EU basic policies. Therefore, it was discussed some scenarios that involve the enlargement of the EU. However, the economic context imposes some constraint regarding this process to accept Croatia and Turkey as EU members. The aim of this paper is to present these scenarios. Taking into consideration that the empirical investigation of these scenarios are difficult to achieve based on short time series data, we propose a new set of analyze based on important macroeconomic indicators.

Keywords: *European Union; budget; reform; enlargement.*

1. Introduction

Community budget issue is far from fully clarified, neither in terms of income source or destination in terms of expenditure in line with the aims of the European construction, which is why we consider highly motivated to approach this issue based on the accuracy and impartiality of the researcher.

Since late 2005, according to the Interinstitutional Agreement, the EU launched sustained move in the sense of a fundamental review of the Community budget. European Commission and European Parliament have launched numerous invitations to researchers, academia in general, and even politicians, to bend on the issue of the EU budget reform process. We believe that the realization of such projects could lead to significant results, so as to come up with a proposal that can be reasoned and scientifically tested. Therefore, this approach is part of our work.

The methodology used in developing this research paper is: i) theoretical and logical analysis of European budget process; ii) conceptual analysis and evaluation is paramount, as compared with the methodological, instrumental or empirical analysis and evaluation; iii) is a critical research relating to the status quo of the subject matter of research

There are increasing debates who stresses the importance and usefulness of the existence of an extensive research to bring not only conceptual and methodological proposals for reforming the European budget process, as well as instrumental proposals (for example, how to identify the European tax base, respectively, how to build an European tax practice).

Taking into consideration that the empirical investigation of these scenarios are difficult to achieve based on short time series data, we propose a new set of analyze based on important macroeconomic indicators.

The paper is organized as follows: section 2 is dedicated to analyze some aspects of the EU budget reform based on the scenario that involve new EU members such as Croatia and Turkey. Section 3 presents the empirical investigation of these scenarios based on a new set of important macroeconomic indicators analyze. Section 4 is dedicated to the conclusions.

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2. Scenario for the European Union budget reform[1]

Along with the decision to adopt a multiannual financial framework for 2007-2013 timeframe, the leaders of governments of the European Union members decided, during the European Council meeting in December 2005, to review the EU policies and funding costs starting with the recommendations for the budget reform and the change of the EU basic policies. Decisions adopted at that time affected the financial prospects set for 2007-2013. The changes proposed in the summit in 2005 were translated in scenarios.

One scenario involves radical reform of the EU budget, but blocks most of the actions set by the Treaty of Lisbon (needs posed by global changes made, that Member States should meet the needs arising from the EU diversity and enlargement to include new members). This process would involve the allocation of adequate resources for each instrument. Even if the CAP (Common Agricultural Policy) is limited, the current budget is inadequate compared to the needs, and review should be completed with a decision to increase the level of funds collected from the EU budget. At present there is, however, sufficient determination of the Member States to lead the discussion in this direction.

Based on the above premises in regard with the EU policies and challenges, one option would be the gradual reconsideration and reconstruction of the policies and instruments that are based on European funds so that the resources are adapted to the new needs. In this context, the Member States must deal with these given the budget constraint imposed by the size of the allocated resources, by the reluctance on its growth potential, and the position taken by the net contributor Member. The adoption of such decisions would not be possible without changing the fundamental EU policies, the acquis communautaire, and the program of the budget expenditure and revenue. This is the scenario of a progressive increase (phasing-in) of the budget so that the new activities can be financed. It may be a realistic scenario with the condition to achieve a balance between the new activities and spending.

Considering that the decision adopted at the summit in December 2005 was due to the current needs of the debate then the radical changes in the EU financing policies is not the main goal. In this situation, the most likely scenario would preserve the status quo of European budget.

The challenges of the EU budget reform focus on the reorientation of the EU expenditure program, considered a legacy of the past with significant impact on increasing the competitiveness of the EU. Making fundamental changes may prove to be difficult and, therefore, the main direction of change should aim to reduce spending for certain policies, while keeping the current level (or a very small increase) funding of existing policies. This shift in expenditure would result primarily from lower costs to agriculture and cohesion policy. Such a change would penalize new acceding countries, but would benefit taxpayers net. It would be a scenario of a progressive decrease (phasing-out) through the change in the budget for increasing the share allocated to new activities.

In terms of political it might be reconsidered the British rebate. Suspension of the exemption would lead to significant contributions to Great Britain to the European budget.

These scenarios were developed only as working hypotheses to outline the potential challenges posed by the EU enlargement. It is well known that any EU enlargement involves costs and benefits for the old states and acceding states. However, taking into account the current economic environment, the financial crisis has deepened the problems already faced by the EU Member States since the boom times, it is unlikely that the founding states of the European Union to be willing to bear the new costs of the EU enlargement. In addition, any State which becomes a member of the EU brings its own imbalances that come into contact with other economic instability of the Member States. Here's that lead to an increase of the problems already faced by the EU and

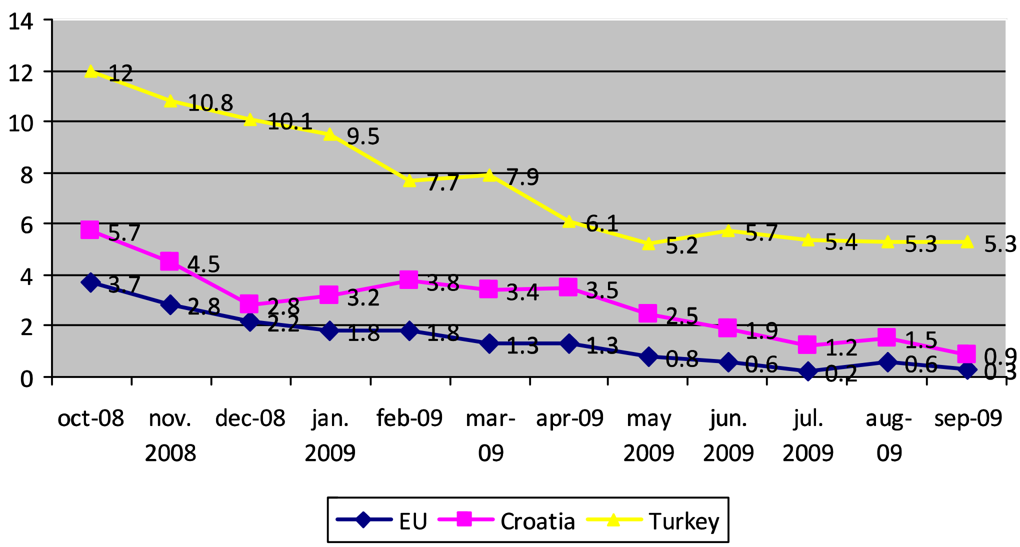
[1] This section is based on the Pietras, Jarosław, *The future of the EU budget. In search of coherence of objectives, policies and finances of the Union*, 2008, p. 60-61.

which will worsen as a result of the crisis, the failure of fiscal consolidation, and aging population effects.

3. Empirical investigation

Given the descriptive nature of these strategies it is difficult to empirically estimate the effects of EU enlargement due to insufficient statistical data. In addition, they may be a number of political and economic factors that cannot be estimated and inserted in these investigations in order to legally validate the statistical results. Considering the reasons stated above, it will try to alert the induced effects of EU enlargement in the current conditions using the key macroeconomic indicators such as inflation, unemployment, GDP per capita, budget balance, and public debt.

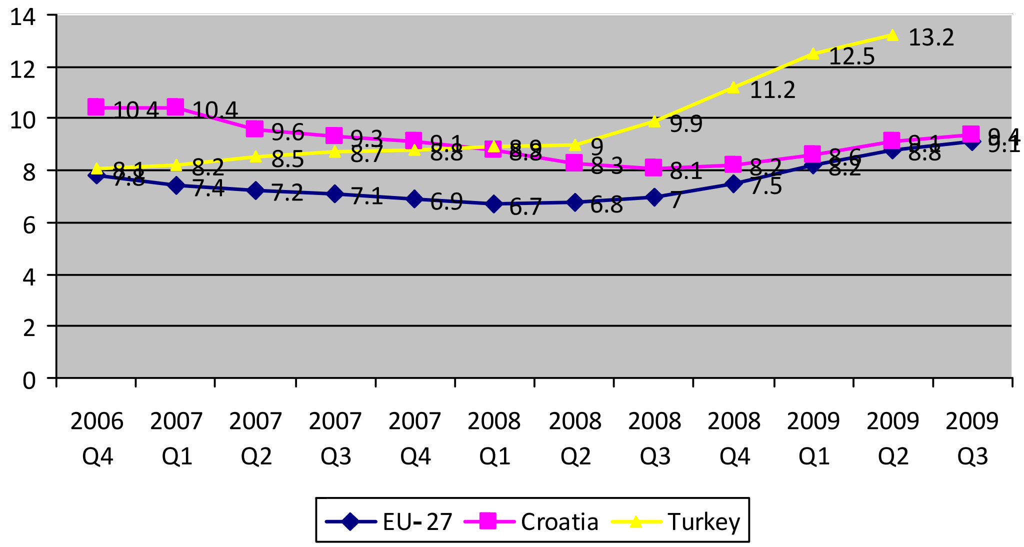
Figure 1. Inflation rate (%)



Source: own determination based on data from Eurostat yearbook 2010.

Analyzing the evolution of inflation in the EU and new EU accession countries can be observed a downward trend in Croatia and Turkey as a result of the mix of monetary and fiscal policy. However, inflation in Croatia and Turkey are above the EU average. Therefore, the inclusion of these countries under present conditions is likely to emphasize the vulnerability of the entire EU.

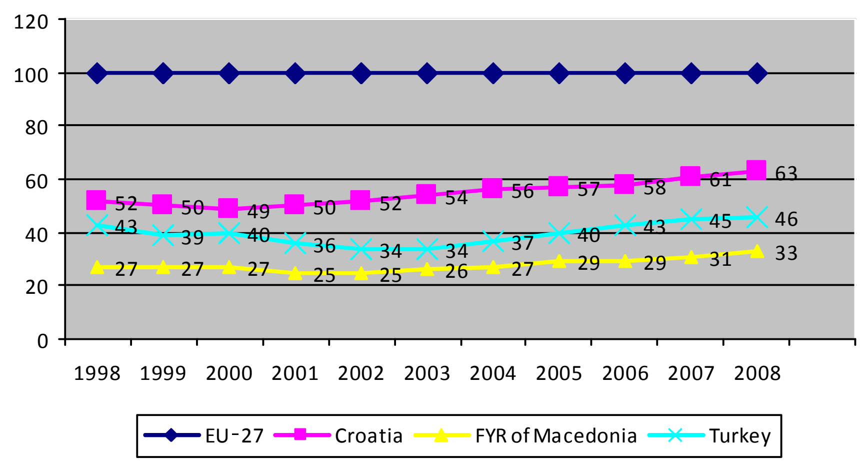
Figure 2. Unemployment rate (%)



Source: own determination based on data from Eurostat yearbook 2010.

The analyze of the unemployment rate shows that the situation is similar to that described above, in the sense that this particular indicator ahead of the EU for Turkey where there is a lag of almost 4 percentage points compared with the EU.

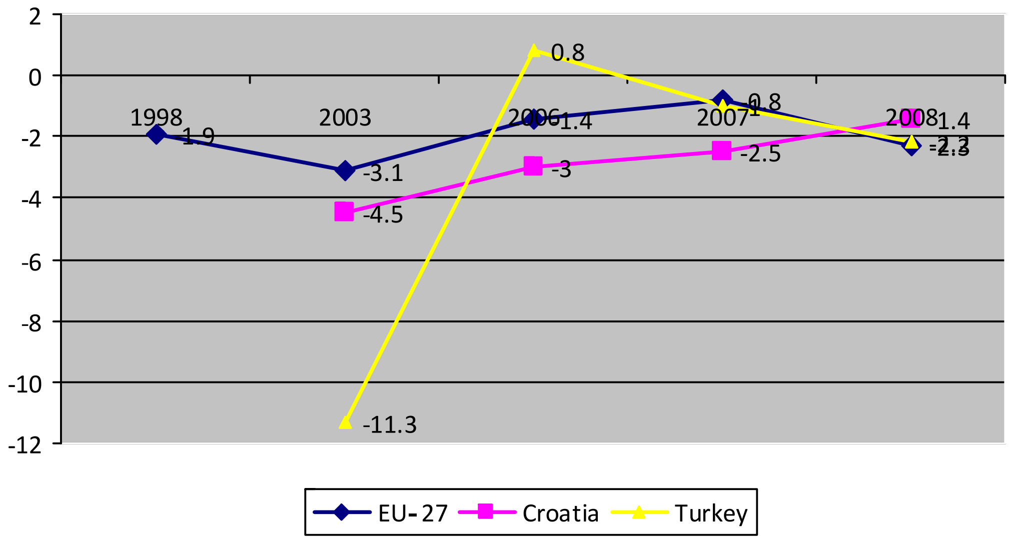
Figure 3. GDP per capita (% of GDP per capita at EU)



Source: own determination based on data from Eurostat yearbook 2010.

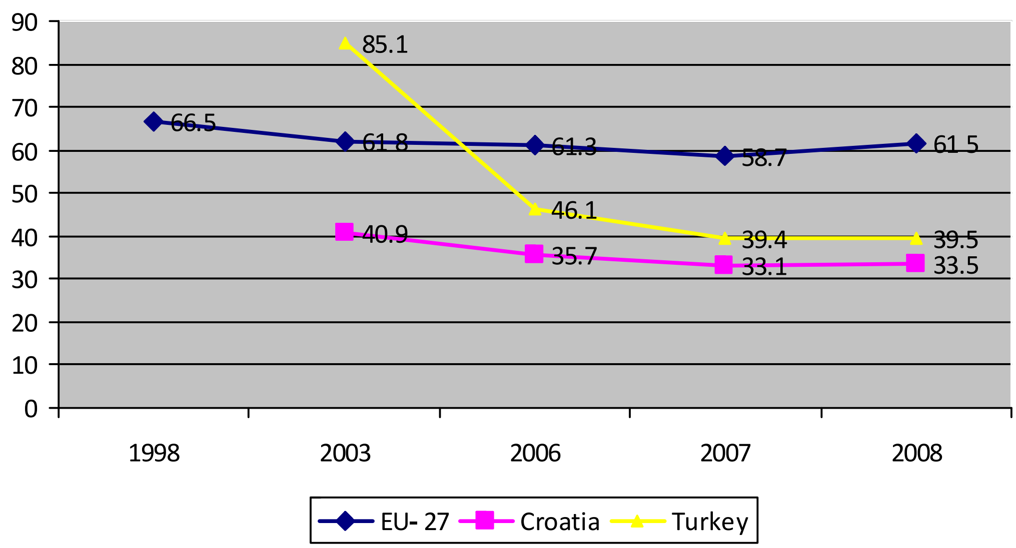
Based on GDP per capita it is identified a significant gap between its level for Croatia, Turkey and Macedonia in comparison with the EU. For example, per capita GDP of these countries to the EU average is 27.8%, in Macedonia, 39.7%, in Turkey, and 54.7%, in Croatia.

Figure 4. Budget balance (% of GDP)



Source: own determination based on data from Eurostat yearbook 2010.

Figure 5. Public debt (% of GDP)



Source: own determination based on data from Eurostat yearbook 2010.

Figures 4 and 5 indicate the evolution of fiscal indicators Croatia, Turkey in comparison with the EU. Following the graphical representation of the budget balance can be seen that these countries have the vast majority of time, lower budget deficits than the limit imposed by the Maastricht treaty. Turkey, however, had faced significant budget deficit in 1998 of 11.3% of GDP, but in 2003 the budget surplus reach 0.8% of GDP. In the same period, Turkey's public debt has been a significant reduction of 39 percentage points of GDP as a result of massive fiscal adjustment that took place during this period. In any case, the indebtedness of Turkey and Croatia has not exceeded 60% of GDP in 1998-2008, excluding 1998 when Turkey had a debt of 85.1% of GDP.

As much as a whole is composed of more heterogeneous components it will be more difficult to manage problems that arise in all parts. Starting from this consideration it can be a generalization of this assertion and extension of it at the EU level. Above were presented the evolution of some of the macroeconomic indicators in order to highlight the important differences between the new acceding countries.

4. Conclusions

The work done in this paper is determined not only by the general case, for improvement of any tool, the EU budget having a role in the implementation of common policy objectives, but also internal and external developments, which put Union before the new challenges: geographic expansion and broadening of the subject areas of integration, the globalization and, more recently, financial and economic crisis. The intention of a deeper evaluation of the Community budget was designed not only with the involvement of EU institutions, but also with the support of wide public consultation, which shows real interest in sustainable results, acceptable, necessary to fund improvements to the design and operation of the EU budget.

It is worthwhile, given the timing generous approach coupled with the possible embed new ideas to reform the budget in future the EU's multiannual financial framework, 2013 - 2020, demonstrating the strategic vision of this reform approach.

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