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Summary

Similarly to any national budget, the European Union budget clearly has a redistributive function, which is to serve common policy aims defined jointly by the member states. One of the most important issues of the redistributive effects of the EU budget is how to set member states’ fiscal balances in a manner that is consistent with equity criterion without sacrificing other economic policy goals.

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1 Budgetary redistribution among the member states – its size and importance

Statistical and econometric analyses based on the relationship between per capita net budget balances (difference between transfers from and contribution to EU budget) and relative net GNP per capita across the EU member states have indicated that the net effect of the EU budget is redistributive. It means that on the one hand the net balances are on average positive in the case of the less developed or poorer member states and negative in the case of the more developed or richer countries on the other. In practical terms it indicates that for a typical citizen of a more developed or richer than the average EU member state, the net effect of the EU budget is equivalent to a flat tax of between 5 to 6 % levied on the difference between his or her gross income and the EU average. In the case of the citizens of the less developed or poorer member states the net effect of the EU budget is a transfer or subsidy of the same magnitude.

Nevertheless, these figures of flat tax on the one hand and subsidy on the other are relatively very small compared with the degree of regional redistribution within any member state. The redistribution within a country is attained through the national budget and fiscal system and its size typically lies around 30% in the EU member states. Comparing the volume of EU budget expenditure, which is only around 1 % of GNP to the figures of national budget expenditures ranging between 30 to 55 % of GNP, it can be stated that despite its small size the EU budget is a rather effective economic policy instrument for redistribution among the member states.

According to statistical time series, the net expenditures of the EU budget have been distributed rather unevenly across the member states. A significant part (around 60 %) of the variation is related to the per capita GDP levels that is the poorer a member state is the larger the support given from the budget. Substantial deviations, however, indicate that member states having similar income levels are often treated differently. It means that there are member states which in net terms receive support from the EU budget, meanwhile there are other member states of the same development category, which do not. The first experiences of the new member states underpin this fact, however thorough analyses cannot yet be done because of various reasons (lack of sufficient data, these countries joined the EU at the end of the outgoing financial framework, etc.).

2 Evolution of the budgetary situation

As regards the main features of the evolution of the budgetary situation in a longer run the following should be mentioned. In qualitative terms there have not been many changes. The most important modification has been the rather dynamic increase in the redistributive impact of the EU budget since the mid-1980s. This increase was more dynamic during the first 7 to 8 years than thereafter. The econometric analyses have shown that the arbitrary elements of the budget allocation increased until 1993 and have decreased since.

It should be underlined that the redistributive effects of the EU budget derive from both its expenditure and revenue sides. Regarding the evolution of the budget, the expenditures have become increasingly progressive due to the growth of structural spending. This expenditure item has heavily concentrated on the less developed member states and turned to be the most redistributive one of all budget items. The functioning of the EAGGF of the CAP has also redistributive effects but only because the weight of agricultural employment is substantially larger in the less developed member states than in the more developed ones. Payments per

farmer, however, vary substantially across countries and disfavour the less developed member states.

As far as the revenue side of the budget is concerned, the GNI-based contributions of the member states are approximately proportional to their incomes but the shares of two further revenue sources are very disproportionate, i.e. the VAT and customs tariffs contributions.

Despite the relatively small size of the budget, the overall redistributive impact of the fiscal flows across the member states is significant, because it is concentrated in a special and well-identifiable area, namely, expenditure on structural and cohesion policy. The degree of redistribution increased substantially for the previous decades but was stagnating during the last decade. The distribution of net contributions across member states shows large and continual deviations from the longer term average pattern. The key question is what is considered a fair allocation of fiscal costs and benefits. The existence of large surpluses and deficits is a serious matter for concern and gives reason for recurrent disputes on the budget. The Commission's view is certainly true when it argues that in spite of the fact that the fiscal balances are the most visible and quantifiable factors, they can capture only a part of the costs and benefits of EU membership. As a consequence of it, public and government views on the general fairness of the budgetary system are likely to depend on the extent to which the redistribution is perceived to be reasonable and unbiased.

3 Is new governance in budgetary policy feasible?

In this context an important question is how (whether) the use of new governance modes in the budgetary field can ensure that the budgetary and redistribution policy could obtain even wider public and government support within the EU.

If the EU budget is an implementation instrument of common policy goals and policies, then how can the Union bring the budget closer to the peoples of its member states it is intended to serve? Bridging the gap between the Commission and member states' governments on the one hand and governments and peoples would pose fresh challenges to the budgetary and redistributive process and policy. The EU needs to move beyond a mechanical conceptualisation and governance to one that recognises the relationship between policy, planning and implementation within a realistic functional framework. The Union needs to avoid the alienation developing with the growing gap between the EU and the citizens it serves. Two ways to bridge this gap are to strengthen the relationship and two-way communication with civil society and to develop processes enabling a wider circle of stakeholders to directly, and strategically contribute to the evolution of the EU budget.

Of course, it must be born in mind that rhetoric cannot replace reform. New processes must be institutionalised to ensure such engagements achieve their goals. This endeavour is already reflected in certain common policy areas, which calls for fresh forms of inclusion, consultation and mobilisation which could effectively inform and influence institutions and policies including the budget which is the embodiment of EU commitment for some priority areas and their implementation.

The usage of new or alternative modes of governance requires the transformation of institutions and decision-making to ensure the facilitation of the pursuit of new goals. This can be translated into good governance through the policy and processes of deepening participatory democracy. Principles of transparency, accountability and responsiveness have driven a number of policy changes in institutional design and the development of structures for good governance. The latter requires the involvement of civil society including labour and business as well as other social and civil partners in the decision-making.

The present situation is characterised by varying political space and participation of member states' governments in the preparation of the EU budget. How can the challenges arising from non-homogeneous civil societies existing in the member states be addressed in a way that substantial part of their views is not distorted and/or diluted? It is an often mentioned point that where people are not involved in decisions that affect their lives, social policies and political interventions are less likely to succeed. Participatory democracy should therefore complement and enhance representative democracy. The question is how this should be addressed in concrete terms in the case of the EU budget. In the context of search for new modes of governance and participatory democracy, the political space can create a natural opportunity for greater participation in the preparation process of the budget. It is not necessarily optimal if technocrats only draft the budget without being influenced by any "outside" political and public processes.

Such a quest for enhanced input legitimacy can be coupled with the requirement of enhanced control, namely, the question is how the capacities of national legislatures can be strengthened to examine and assess if the allocation of resources achieved the initially defined targets?

4 The main goals and principles of the budgetary policy

EU budgetary policy must support the development of the member states and the implementation of the common policy goals. Similarly to all Community policies, budgetary policy must be subject to regular reviews in terms of its impact on the overall objectives of the Union. This must be done with regard to the fact that the public is often not aware of the achievements of the objectives realised by the EU budget.

The reforms of the EU budget over the last decades have been the results of political bargain among member countries' governments. Thus, the question is how the wider public could effectively participate in the preparation of the budget in terms of determining policy priorities for implementation and drawing attention to new developments, which should be incorporated into the budget. Related issues are first, how public awareness and understanding can be increased of both the current and long-term implications of the budgetary situation and second, how enhanced opportunities for public input can be created to budgetary and redistributive decisions.

Furthermore, the question of the appropriate level of centralisation and decentralisation of budgetary policy can also be addressed. The main points are the assignment of competences to taxation, spending and regulatory responsibility to the various spheres of governance and the interface with the private sector and civil society. In this framework responsibilities should be assigned to that sphere of governance at which the delivery is optimal. It is obvious that the decentralisation of the budgetary policy of the EU is not necessarily always better than centralisation. A further centralisation of certain elements of budgetary and redistributive policies in the EU would be indeed preferable. The likely optimal solution is that centralisation and decentralisation processes should take place at the same time but in different areas.

Sub-EU governance levels often pursue "self-interest" policies and strategies seeking a "free-ride" with no accountability, undermining unity and solidarity. The principle of co-operative governance containing elements of centralisation is an essential catalyst to overcoming this problem. This principle accompanied with the principle of collective action act as a counter-vailing weight to the "beggar-thy-neighbour" policies. The accessibility of information, which is related to the third important principle, that is the principle of transparency, is not only necessary but also an essential requirement for effective oversight by the legislatures. If social

and economic partners, civil society and labour are to effectively contribute to the development of the policy priorities in the budget then access to relevant information is an imperative.

What is needed is to facilitate fiscal harmonisation and stabilisation and stability checks? The advantages of an EU-level budget should be successfully merged with the advantages of fiscal decentralisation in an effective intergovernmental fiscal system. It has to be kept in mind that one of the effects of globalisation is the increasing impact on the designs of fiscal systems in a globalised world economy. These impacts can prevail more vigorously in the integrated European economies.

5 Budgetary system and the factors of governance

It must be emphasised that any budgetary system run via good governance requires not only political will but well-functioning common or at least harmonised accounting and financial management and tax systems and also adequate information systems. Regular reviewing of EU budget policy priorities and ensuring an engagement with lower levels should be the main features of a political policy dialogue and not a one way street of instruction. It implies a change in the instruments of budgetary management but also a change in the style and mode of governance. The changes should lead to larger budget integrity, greater transparency and increasing accessibility. Changes in managing the budget should concern the rules of procedure and position that are introduced to transform the behaviour of those involved as well as the redistributive function of expenditure.

The needs to change are set off by various issues, problems and questions. What should be the EU's spending priorities and how much should it be spending in total? How might the main current areas of spending be reformed? The EU's latest enlargement has brought these matters to a head, but arguably a serious debate about the EU budget is long overdue. The fact that this discussion took place after the entry of ten new member states rather than before, showed the reluctance of member states to review the budget thoroughly.

The practice shows that the main objective of EU spending is to achieve acceptable net balances rather than agreed policy objectives. The larger net contributors, which belong to the group of more developed member states, press hard for a reduction of their net contribution, while the less developed member states argue that their positive net balances should be preserved on equity grounds. Disparate national interests were/are also clearly evident in the opinions on the proposals for the restructuring of farm and structural programmes and British rebate. Besides these conflicts between national interests, one of the most critical obstacles to a budget consensus is the absence of a shared and operational equity criterion for the redistribution of net budget contributions.

6 Lessons drawn from experience

On the basis of experience of the current budget system and several theoretical arguments there are some crucial issues and points, which should be taken into consideration when any new mode of governance is to be designed for the redistributive or budgetary governance:

1. Net EU budget contribution (balances) should be linked to income per capita through simple rules that reflect an evolving consensus on the desirable degree of redistribution and treats member states with similar income levels in a similar way.
2. The budget items should be evaluated in terms of the policy goals and not their redistributive effects. But taking into account the principle of cohesion, the overall distribution of net benefits should be inversely related to income levels.

3. The new governance mode of the budget should provide a transparent way of implementing the principle of cohesion without sacrificing other policy objectives. It should reduce the scope for real and perceived inequalities in the redistribution of budget resources. The system should be based on such operational principles that the member states (governments and social partners) need to negotiate over a single, easily understandable and interpretable parameter and not over a list of specific items that may lead to obviously arbitrary distribution.
4. New procedures should be introduced by which the incentives of member governments could be changed. The changes should include that the overall spending targets for each programme, which are now largely set in advance, should be loosened up. The importance of horizontal programmes should be increased because their impact on member states' net balances cannot be measured exactly in advance.
5. The use of new modes of budgetary policy governance should aim at increasing the role of the social partners in the member states and reducing that of the national governments in the decision-making process and the implementation process of the budget by different means. An additional important issue is the decoupling of national contribution to the EU budget from the national budgets (e.g. direct European taxes).

The EU failed to achieve a reform of the budget system during the negotiations over the Financial Perspective for the period 2007-13, but there will be a possibility to do it in 2008-9 when the budget will be reviewed. The EU should go the whole way and introduce a transparent redistributive system that is not linked to EU policies. Its main objective should be a simple one, namely to achieve a fair and politically acceptable financial burden-sharing and redistribution of financial benefits and contribution. All this should preferably be done via using new/good governance methods – for the good of all the member states and their citizens.